

OLD NATIONAL BANCORP /IN/  
Form 10-Q  
November 01, 2017  
[Table of Contents](#)

**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 September 30, 2017**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**35-1539838**  
**(I.R.S. Employer**  
**Identification No.)**

**One Main Street**  
**Evansville, Indiana**  
**(Address of principal executive offices)**

**47708**  
**(Zip Code)**

**(812) 464-1294**

**(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 135,523,000 shares outstanding at September 30, 2017.



Table of Contents

**OLD NATIONAL BANCORP**

**FORM 10-Q**

**TABLE OF CONTENTS**

|   | Page |
|---|------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>   | 4    |
| <b><u>Item 1. Financial Statements</u></b>  | 4    |
| <u>Consolidated Balance Sheets</u>  | 4    |
| <u>Consolidated Statements of Income (unaudited)</u>  | 5    |
| <u>Consolidated Statements of Comprehensive Income (unaudited)</u>  | 6    |
| <u>Consolidated Statements of Changes in Shareholders' Equity (unaudited)</u>                               | 7    |
| <u>Consolidated Statements of Cash Flows (unaudited)</u>  | 8    |
| <u>Notes to Consolidated Financial Statements (unaudited)</u>   | 9    |
| <u>Note 1. Basis of Presentation</u>  | 9    |
| <u>Note 2. Recent Accounting Pronouncements</u>   | 9    |
| <u>Note 3. Acquisition and Divestiture Activity</u>   | 15   |
| <u>Note 4. Net Income Per Share</u>   | 16   |
| <u>Note 5. Investment Securities</u>  | 18   |
| <u>Note 6. Loans Held for Sale</u>  | 22   |
| <u>Note 7. Loans and Allowance for Loan Losses</u>  | 22   |
| <u>Note 8. Other Real Estate Owned</u>  | 35   |
| <u>Note 9. Premises and Equipment</u>   | 35   |
| <u>Note 10. Goodwill and Other Intangible Assets</u>  | 36   |
| <u>Note 11. Loan Servicing Rights</u>   | 37   |
| <u>Note 12. Qualified Affordable Housing Projects and Other Tax Credit Investments</u>                      | 37   |
| <u>Note 13. Securities Sold Under Agreements to Repurchase</u>  | 38   |
| <u>Note 14. Federal Home Loan Bank Advances</u>   | 39   |
| <u>Note 15. Other Borrowings</u>  | 40   |
| <u>Note 16. Accumulated Other Comprehensive Income (Loss)</u>   | 42   |
| <u>Note 17. Employee Benefit Plans</u>  | 45   |
| <u>Note 18. Stock-Based Compensation</u>  | 45   |
| <u>Note 19. Income Taxes</u>  | 46   |
| <u>Note 20. Derivative Financial Instruments</u>  | 48   |
| <u>Note 21. Commitments and Contingencies</u>   | 51   |
| <u>Note 22. Financial Guarantees</u>  | 51   |
| <u>Note 23. Segment Information</u>   | 52   |
| <u>Note 24. Fair Value</u>  | 52   |
| <b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> | 61   |
| <u>Executive Summary</u>  | 62   |
| <u>Results of Operations</u>  | 63   |
| <u>Financial Condition</u>  | 72   |
| <u>Risk Management</u>  | 75   |
| <u>Off-Balance Sheet Arrangements</u>   | 84   |
| <u>Contractual Obligations</u>  | 85   |

|  |    |
|--|----|
| <u>Critical Accounting Policies and Estimates</u>                          | 85 |
| <u>Forward-Looking Statements</u>  | 89 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>  | 89 |
| <u>Item 4. Controls and Procedures</u>                                     | 89 |
| <u>PART II. OTHER INFORMATION</u>  | 90 |
| <u>Item 1A. Risk Factors</u>   | 90 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 90 |
| <u>Item 5. Other Information</u>   | 91 |
| <u>Item 6. Exhibits</u>  | 91 |
| <u>SIGNATURE</u>   | 92 |

**Table of Contents**

**GLOSSARY OF ABBREVIATIONS AND ACRONYMS**

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

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

Anchor (MN): Anchor Bancorp, Inc.

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

Anchor (WI): Anchor BanCorp Wisconsin Inc.

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

CDO: collateralized debt obligation

Common Stock: Old National Bancorp common stock, \$1 per share stated value

CReED: Indiana Community Revitalization Enhancement District Tax Credit

DTI: debt-to-income

EITF: Emerging Issues Task Force

FASB: Financial Accounting Standards Board

FDIC: Federal Deposit Insurance Corporation

FHLB: Federal Home Loan Bank

FHTC: Federal Historic Tax Credit

FICO: Fair Isaac Corporation

GAAP: generally accepted accounting principles

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

ONI: ONB Insurance Group, Inc.

OTTI: other-than-temporary impairment

PCI: purchased credit impaired

PD: probability of default

TBA: to be announced

TDR: troubled debt restructuring

**Table of Contents****OLD NATIONAL BANCORP****CONSOLIDATED BALANCE SHEETS**

| (dollars and shares in thousands, except per share data)   | September 30,<br>2017<br>(unaudited) | December 31,<br>2016 | September 30,<br>2016<br>(unaudited) |
|--|--------------------------------------|----------------------|--------------------------------------|
| <b>Assets</b>  |                                      |                      |                                      |
| Cash and due from banks  | \$ 202,652                           | \$ 209,381           | \$ 224,893                           |
| Money market and other interest-earning investments  | 49,715                               | 46,138               | 36,147                               |
| Total cash and cash equivalents  | 252,367                              | 255,519              | 261,040                              |
| Trading securities, at fair value  | 5,351                                | 4,982                | 4,973                                |
| Investment securities available-for-sale, at fair value:   |                                      |                      |                                      |
| U.S. Treasury  | 5,615                                | 7,103                | 9,265                                |
| U.S. government-sponsored entities and agencies  | 576,436                              | 493,956              | 473,070                              |
| Mortgage-backed securities   | 1,450,736                            | 1,525,019            | 1,483,840                            |
| States and political subdivisions  | 414,673                              | 436,684              | 449,578                              |
| Other securities   | 328,377                              | 334,412              | 342,925                              |
| Total investment securities available-for-sale   | 2,775,837                            | 2,797,174            | 2,758,678                            |
| Investment securities held-to-maturity, at amortized cost (fair value \$740,564; \$784,172; and \$922,311, respectively) | 688,951                              | 745,090              | 850,803                              |
| Federal Home Loan Bank/Federal Reserve Bank stock, at cost   | 117,354                              | 101,716              | 101,716                              |
| Loans held for sale, at fair value   | 30,221                               | 90,682               | 60,465                               |
| Loans:   |                                      |                      |                                      |
| Commercial   | 2,049,054                            | 1,917,099            | 1,836,380                            |
| Commercial real estate   | 3,370,211                            | 3,130,853            | 3,092,575                            |
| Residential real estate  | 2,119,120                            | 2,087,530            | 2,105,232                            |
| Consumer credit, net of unearned income  | 1,859,739                            | 1,875,030            | 1,870,798                            |
| Total loans  | 9,398,124                            | 9,010,512            | 8,904,985                            |
| Allowance for loan losses  | (50,169)                             | (49,808)             | (51,547)                             |
| Net loans  | 9,347,955                            | 8,960,704            | 8,853,438                            |
| Premises and equipment, net  | 412,488                              | 429,622              | 333,266                              |
| Accrued interest receivable  | 75,342                               | 81,381               | 77,689                               |
| Goodwill   | 655,018                              | 655,018              | 655,210                              |
| Other intangible assets  | 29,235                               | 37,677               | 40,918                               |
| Company-owned life insurance   | 356,897                              | 352,956              | 351,431                              |
| Net deferred tax assets  | 137,951                              | 181,863              | 169,466                              |
| Loan servicing rights  | 24,900                               | 25,561               | 25,920                               |
| Assets held for sale   | 8,196                                | 5,970                | 4,217                                |
| Other real estate owned and repossessed personal property  | 10,259                               | 18,546               | 23,719                               |
| Other assets   | 137,478                              | 115,776              | 130,122                              |



|              |                      |               |               |
|--------------|----------------------|---------------|---------------|
| Total assets | <b>\$ 15,065,800</b> | \$ 14,860,237 | \$ 14,703,071 |
|--------------|----------------------|---------------|---------------|

**Liabilities**

## Deposits:

|                            |                     |              |              |
|----------------------------|---------------------|--------------|--------------|
| Noninterest-bearing demand | <b>\$ 3,034,696</b> | \$ 3,016,093 | \$ 2,944,331 |
|----------------------------|---------------------|--------------|--------------|

## Interest-bearing:

|     |                  |           |           |
|-----|------------------|-----------|-----------|
| NOW | <b>2,539,233</b> | 2,596,595 | 2,486,190 |
|-----|------------------|-----------|-----------|

|         |                  |           |           |
|---------|------------------|-----------|-----------|
| Savings | <b>2,932,488</b> | 2,954,709 | 2,963,637 |
|---------|------------------|-----------|-----------|

|              |                |         |         |
|--------------|----------------|---------|---------|
| Money market | <b>648,378</b> | 707,748 | 687,895 |
|--------------|----------------|---------|---------|

|      |                  |           |           |
|------|------------------|-----------|-----------|
| Time | <b>1,451,989</b> | 1,468,108 | 1,564,655 |
|------|------------------|-----------|-----------|

|                |                   |            |            |
|----------------|-------------------|------------|------------|
| Total deposits | <b>10,606,784</b> | 10,743,253 | 10,646,708 |
|----------------|-------------------|------------|------------|

|  |                |         |         |
|--|----------------|---------|---------|
| Federal funds purchased and interbank borrowings | <b>317,021</b> | 213,003 | 125,121 |
|--|----------------|---------|---------|

|  |                |         |         |
|--|----------------|---------|---------|
| Securities sold under agreements to repurchase | <b>285,409</b> | 367,052 | 347,804 |
|--|----------------|---------|---------|

|                                 |                  |           |           |
|---------------------------------|------------------|-----------|-----------|
| Federal Home Loan Bank advances | <b>1,589,367</b> | 1,353,092 | 1,331,379 |
|---------------------------------|------------------|-----------|-----------|

|                  |                |         |         |
|------------------|----------------|---------|---------|
| Other borrowings | <b>219,314</b> | 218,939 | 218,795 |
|------------------|----------------|---------|---------|

|  |                |         |         |
|--|----------------|---------|---------|
| Accrued expenses and other liabilities | <b>141,082</b> | 150,481 | 198,807 |
|--|----------------|---------|---------|

|                   |                   |            |            |
|-------------------|-------------------|------------|------------|
| Total liabilities | <b>13,158,977</b> | 13,045,820 | 12,868,614 |
|-------------------|-------------------|------------|------------|

**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, 135,523; 135,159; and 134,985 shares issued and outstanding, respectively | <b>135,523</b> | 135,159 | 134,985 |
|---|----------------|---------|---------|

|                 |                  |           |           |
|-----------------|------------------|-----------|-----------|
| Capital surplus | <b>1,354,036</b> | 1,348,338 | 1,343,740 |
|-----------------|------------------|-----------|-----------|

|                   |                |         |         |
|-------------------|----------------|---------|---------|
| Retained earnings | <b>451,461</b> | 390,292 | 374,561 |
|-------------------|----------------|---------|---------|

|   |                 |          |          |
|---|-----------------|----------|----------|
| Accumulated other comprehensive income (loss), net of tax | <b>(34,197)</b> | (59,372) | (18,829) |
|---|-----------------|----------|----------|

|                           |                  |           |           |
|---------------------------|------------------|-----------|-----------|
| Total shareholders equity | <b>1,906,823</b> | 1,814,417 | 1,834,457 |
|---------------------------|------------------|-----------|-----------|

|   |                      |               |               |
|---|----------------------|---------------|---------------|
| Total liabilities and shareholders equity | <b>\$ 15,065,800</b> | \$ 14,860,237 | \$ 14,703,071 |
|---|----------------------|---------------|---------------|

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

**Table of Contents****OLD NATIONAL BANCORP****CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

| (dollars and shares in thousands, except per share data)    | Three Months<br>Ended |           | Nine Months Ended     |            |
|---|-----------------------|-----------|-----------------------|------------|
|   | September 30,<br>2017 | 2016      | September 30,<br>2017 | 2016       |
| <b>Interest Income</b>                                      |                       |           |                       |            |
| Loans including fees:                                       |                       |           |                       |            |
| Taxable   | \$ 97,685             | \$ 94,866 | \$ 282,075            | \$ 252,965 |
| Nontaxable  | 3,373                 | 3,004     | 9,788                 | 8,999      |
| Investment securities:                                      |                       |           |                       |            |
| Taxable   | 15,330                | 14,612    | 46,516                | 41,919     |
| Nontaxable  | 7,052                 | 7,208     | 21,652                | 21,309     |
| Money market and other interest-earning investments         | 85                    | 23        | 171                   | 93         |
| <b>Total interest income</b>                                | <b>123,525</b>        | 119,713   | <b>360,202</b>        | 325,285    |
| <b>Interest Expense</b>                                     |                       |           |                       |            |
| Deposits  | 5,125                 | 4,819     | 14,232                | 12,566     |
| Federal funds purchased and interbank borrowings            | 655                   | 226       | 1,433                 | 566        |
| Securities sold under agreements to repurchase              | 280                   | 375       | 870                   | 1,139      |
| Federal Home Loan Bank advances                             | 6,618                 | 4,137     | 17,947                | 11,164     |
| Other borrowings  | 2,369                 | 2,353     | 7,108                 | 7,064      |
| <b>Total interest expense</b>                               | <b>15,047</b>         | 11,910    | <b>41,590</b>         | 32,499     |
| <b>Net interest income</b>                                  | <b>108,478</b>        | 107,803   | <b>318,612</b>        | 292,786    |
| Provision for loan losses                                   | 311                   | 1,306     | 2,013                 | 2,716      |
| <b>Net interest income after provision for loan losses</b>  | <b>108,167</b>        | 106,497   | <b>316,599</b>        | 290,070    |
| <b>Noninterest Income</b>                                   |                       |           |                       |            |
| Wealth management fees                                      | 8,837                 | 8,572     | 27,515                | 26,048     |
| Service charges on deposit accounts                         | 10,535                | 11,054    | 30,418                | 31,130     |
| Debit card and ATM fees                                     | 4,248                 | 4,330     | 12,920                | 12,586     |
| Mortgage banking revenue                                    | 5,104                 | 7,718     | 14,516                | 15,841     |
| Insurance premiums and commissions                          | 170                   | 132       | 437                   | 20,375     |
| Investment product fees                                     | 5,193                 | 5,038     | 15,186                | 13,667     |
| Capital markets income                                      | 1,843                 | 849       | 5,621                 | 2,262      |
| Company-owned life insurance                                | 2,022                 | 2,163     | 6,288                 | 6,281      |
| Net securities gains (losses)                               | 2,972                 | 1,647     | 7,547                 | 4,609      |
| Recognition of deferred gain on sale leaseback transactions | 537                   | 235       | 1,612                 | 2,325      |
| Gain on sale of ONB Insurance Group, Inc.                   |                       |           |                       | 41,864     |
| Change in FDIC indemnification asset                        |                       |           |                       | 233        |

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|  |                  |           |                   |            |
|--|------------------|-----------|-------------------|------------|
| Other income   | <b>4,905</b>     | 5,505     | <b>16,497</b>     | 12,858     |
| Total noninterest income                                     | <b>46,366</b>    | 47,243    | <b>138,557</b>    | 190,079    |
| <b>Noninterest Expense</b>                                   |                  |           |                   |            |
| Salaries and employee benefits                               | <b>57,783</b>    | 60,861    | <b>171,953</b>    | 180,548    |
| Occupancy  | <b>11,670</b>    | 12,944    | <b>34,343</b>     | 39,356     |
| Equipment  | <b>3,485</b>     | 3,564     | <b>10,062</b>     | 9,773      |
| Marketing  | <b>2,646</b>     | 3,528     | <b>9,369</b>      | 11,125     |
| Data processing  | <b>7,696</b>     | 8,242     | <b>23,530</b>     | 24,041     |
| Communication  | <b>2,163</b>     | 2,755     | <b>6,865</b>      | 7,154      |
| Professional fees  | <b>4,589</b>     | 3,252     | <b>11,317</b>     | 11,801     |
| Loan expense   | <b>1,542</b>     | 2,213     | <b>4,866</b>      | 5,669      |
| Supplies   | <b>547</b>       | 799       | <b>1,720</b>      | 1,980      |
| FDIC assessment  | <b>2,197</b>     | 2,149     | <b>6,814</b>      | 6,098      |
| Other real estate owned expense                              | <b>511</b>       | 728       | <b>2,635</b>      | 3,251      |
| Amortization of intangibles                                  | <b>2,641</b>     | 3,233     | <b>8,442</b>      | 9,245      |
| Other expense  | <b>6,232</b>     | 3,794     | <b>16,488</b>     | 17,848     |
| Total noninterest expense                                    | <b>103,702</b>   | 108,062   | <b>308,404</b>    | 327,889    |
| Income before income taxes                                   | <b>50,831</b>    | 45,678    | <b>146,752</b>    | 152,260    |
| Income tax expense   | <b>11,459</b>    | 10,969    | <b>32,534</b>     | 51,452     |
| Net income   | <b>\$ 39,372</b> | \$ 34,709 | <b>\$ 114,218</b> | \$ 100,808 |
| Net income per common share basic                            | <b>\$ 0.30</b>   | \$ 0.25   | <b>\$ 0.85</b>    | \$ 0.80    |
| Net income per common share diluted                          | <b>0.29</b>      | 0.25      | <b>0.84</b>       | 0.80       |
| Weighted average number of common shares outstanding basic   | <b>135,120</b>   | 134,492   | <b>135,040</b>    | 125,366    |
| Weighted average number of common shares outstanding diluted | <b>135,796</b>   | 135,011   | <b>135,693</b>    | 125,839    |
| Dividends per common share                                   | <b>\$ 0.13</b>   | \$ 0.13   | <b>\$ 0.39</b>    | \$ 0.39    |

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

Table of Contents

## OLD NATIONAL BANCORP

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

| (dollars in thousands)   | Three Months<br>Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--|--|-----------|------------------------------------|------------|
|  | 2017                                   | 2016      | 2017                               | 2016       |
| Net income   | \$ 39,372                              | \$ 34,709 | \$ 114,218                         | \$ 100,808 |
| Other comprehensive income (loss):   |  |           |                                    |            |
| Change in securities available-for-sale:   |  |           |                                    |            |
| Unrealized holding gains (losses) for the period   | (3,955)                                | 3,428     | 42,452                             | 33,956     |
| Reclassification adjustment for securities gains realized in income  | (2,972)                                | (1,647)   | (7,547)                            | (4,609)    |
| Income tax effect  | 2,513                                  | (693)     | (12,764)                           | (10,670)   |
| Unrealized gains (losses) on available-for-sale securities   | (4,414)                                | 1,088     | 22,141                             | 18,677     |
| Change in securities held-to-maturity:   |  |           |                                    |            |
| Amortization of fair value for securities held-to-maturity<br>previously recognized into accumulated other comprehensive<br>income | 456                                    | 439       | 1,358                              | 1,370      |
| Income tax effect  | (156)                                  | (150)     | (465)                              | (468)      |
| Changes from securities held-to-maturity   | 300                                    | 289       | 893                                | 902        |
| Cash flow hedges:  |  |           |                                    |            |
| Net unrealized derivative gains (losses) on cash flow hedges   | 217                                    | 3,133     | (1,590)                            | (12,480)   |
| Reclassification adjustment for losses realized in net income  | 1,429                                  | 1,865     | 4,962                              | 4,723      |
| Income tax effect  | (625)                                  | (1,899)   | (1,281)                            | 2,948      |
| Changes from cash flow hedges  | 1,021                                  | 3,099     | 2,091                              | (4,809)    |
| Defined benefit pension plans:   |  |           |                                    |            |
| Amortization of net loss recognized in income  | 27                                     | 503       | 81                                 | 1,933      |
| Income tax effect  | (11)                                   | (191)     | (31)                               | (735)      |
| Changes from defined benefit pension plans   | 16                                     | 312       | 50                                 | 1,198      |
| Other comprehensive income (loss), net of tax  | (3,077)                                | 4,788     | 25,175                             | 15,968     |
| Comprehensive income   | \$ 36,295                              | \$ 39,497 | \$ 139,393                         | \$ 116,776 |

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



Table of Contents

## OLD NATIONAL BANCORP

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

| (dollars in thousands)                            | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>Shareholders<br>Equity |
|---|-----------------|--------------------|----------------------|---|---------------------------------|
| <b>Balance at December 31, 2015</b>               | \$ 114,297      | \$ 1,087,911       | \$ 323,759           | \$ (34,797)   | \$ 1,491,170                    |
| Net income  |                 |                    | 100,808              |   | 100,808                         |
| Other comprehensive income                        |                 |                    |                      | 15,968  | 15,968                          |
| Acquisition of Anchor BanCorp Wisconsin Inc.      | 20,415          | 253,150            |                      |   | 273,565                         |
| Dividends common stock (\$0.39 per share)         |                 |                    | (49,962)             |   | (49,962)                        |
| Common stock issued                               | 24              | 272                |                      |   | 296                             |
| Common stock repurchased                          | (146)           | (1,759)            |                      |   | (1,905)                         |
| Stock-based compensation expense                  |                 | 5,070              |                      |   | 5,070                           |
| Stock activity under incentive compensation plans | 395             | (904)              | (44)                 |   | (553)                           |
| <b>Balance at September 30, 2016</b>              | \$ 134,985      | \$ 1,343,740       | \$ 374,561           | \$ (18,829)   | \$ 1,834,457                    |
| <b>Balance at December 31, 2016</b>               | \$ 135,159      | \$ 1,348,338       | \$ 390,292           | \$ (59,372)   | \$ 1,814,417                    |
| Net income  |                 |                    | 114,218              |   | 114,218                         |
| Other comprehensive income                        |                 |                    |                      | 25,175  | 25,175                          |
| Dividends common stock (\$0.39 per share)         |                 |                    | (52,841)             |   | (52,841)                        |
| Common stock issued                               | 18              | 285                |                      |   | 303                             |
| Common stock repurchased                          | (108)           | (1,809)            |                      |   | (1,917)                         |
| Stock-based compensation expense                  |                 | 4,684              |                      |   | 4,684                           |
| Stock activity under incentive compensation plans | 454             | 2,538              | (208)                |   | 2,784                           |
| <b>Balance at September 30, 2017</b>              | \$ 135,523      | \$ 1,354,036       | \$ 451,461           | \$ (34,197)   | \$ 1,906,823                    |

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

**Table of Contents****OLD NATIONAL BANCORP****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

| (dollars in thousands)   | Nine Months Ended<br>September 30, |             |
|--|------------------------------------|-------------|
|  | 2017                               | 2016        |
| <b>Cash Flows From Operating Activities</b>  |                                    |             |
| Net income   | \$ 114,218                         | \$ 100,808  |
| Adjustments to reconcile net income to cash provided by operating activities:                |                                    |             |
| Depreciation   | 16,178                             | 11,399      |
| Amortization of other intangible assets  | 8,442                              | 9,245       |
| Net premium amortization on investment securities  | 11,263                             | 14,331      |
| Amortization of and net gains on termination of FDIC indemnification asset                   |                                    | (458)       |
| Stock-based compensation expense   | 4,684                              | 5,070       |
| Excess tax (benefit) expense on stock-based compensation                                     | 126                                |             |
| Provision for loan losses  | 2,013                              | 2,716       |
| Net securities (gains) losses  | (7,547)                            | (4,609)     |
| Recognition of deferred gain on sale leaseback transactions                                  | (1,612)                            | (2,325)     |
| Gain on sale of ONB Insurance Group, Inc.  |                                    | (41,864)    |
| Net gains on sales of loans and other assets   | (5,082)                            | (6,019)     |
| Increase in cash surrender value of company-owned life insurance                             | (6,288)                            | (6,281)     |
| Residential real estate loans originated for sale  | (336,238)                          | (447,191)   |
| Proceeds from sale of residential real estate loans  | 403,128                            | 416,208     |
| (Increase) decrease in interest receivable   | 6,039                              | (1,283)     |
| (Increase) decrease in other real estate owned   | 8,287                              | 7,022       |
| (Increase) decrease in other assets  | 8,498                              | 22,153      |
| Increase (decrease) in accrued expenses and other liabilities                                | (4,370)                            | (11,059)    |
| Total adjustments  | 107,521                            | (32,945)    |
| Net cash flows provided by (used in) operating activities                                    | 221,739                            | 67,863      |
| <b>Cash Flows From Investing Activities</b>  |                                    |             |
| Cash portion of bank purchase price, net of cash acquired                                    |                                    | (62,532)    |
| Proceeds from sale of ONB Insurance Group, Inc.  |                                    | 91,771      |
| Purchases of investment securities available-for-sale  | (566,089)                          | (1,281,062) |
| Purchases of Federal Home Loan Bank/Federal Reserve Bank stock                               | (15,647)                           | (10,974)    |
| Proceeds from maturities, prepayments, and calls of investment securities available-for-sale | 337,766                            | 1,043,014   |
| Proceeds from sales of investment securities available-for-sale                              | 284,315                            | 157,819     |
| Proceeds from maturities, prepayments, and calls of investment securities held-to-maturity   | 53,586                             | 16,324      |
| Proceeds from redemption of Federal Home Loan Bank/Federal Reserve Bank stock                | 9                                  |             |
| Proceeds from sales of trading securities  | 127                                |             |

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|  |                  |                  |
|--|------------------|------------------|
| Reimbursements under FDIC loss share agreements                  |                  | 10,000           |
| Net principal collected from (loans made to) loan customers      | (389,264)        | (322,876)        |
| Proceeds from settlements on company-owned life insurance        | 2,347            | 3,422            |
| Proceeds from sale of premises and equipment and other assets    | 15,058           | 6,332            |
| Purchases of premises and equipment and other assets             | (17,675)         | (117,899)        |
| <b>Net cash flows provided by (used in) investing activities</b> | <b>(295,467)</b> | <b>(466,661)</b> |

**Cash Flows From Financing Activities**

|  |           |           |
|--|-----------|-----------|
| Net increase (decrease) in:                                |           |           |
| Deposits   | (136,469) | 393,135   |
| Federal funds purchased and interbank borrowings           | 104,018   | (165,970) |
| Securities sold under agreements to repurchase             | (81,643)  | (42,737)  |
| Payments for maturities of Federal Home Loan Bank advances | (893,363) | (592,877) |
| Payments for maturities of other borrowings                | (116)     | (50)      |
| Proceeds from Federal Home Loan Bank advances              | 1,130,000 | 900,000   |
| Cash dividends paid on common stock                        | (52,841)  | (49,962)  |
| Common stock repurchased                                   | (1,917)   | (1,905)   |
| Proceeds from exercise of stock options                    | 2,604     | 90        |
| Common stock issued  | 303       | 296       |

Net cash flows provided by (used in) financing activities **70,576** 440,020

Net increase (decrease) in cash and cash equivalents **(3,152)** 41,222

Cash and cash equivalents at beginning of period **255,519** 219,818

**Cash and cash equivalents at end of period** \$ **252,367** \$ 261,040

Supplemental cash flow information:

Total interest paid \$ **43,205** \$ 33,394

Total taxes paid (net of refunds) \$ **2,958** \$ 25,900

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



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**Table of Contents****OLD NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National ) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of September 30, 2017 and 2016, and December 31, 2016, and the results of its operations for the three and nine months ended September 30, 2017 and 2016. 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, 2016.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the 2017 presentation. Such reclassifications had no effect on net income or shareholders equity and were insignificant amounts.

**NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

**FASB ASC 606** 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 have finalized our in-depth assessment and identified the revenue line items within the scope of this new guidance. We do not expect the new standard, or any of the amendments detailed below, to result in a material change from our current accounting for revenue because the majority of the Company's financial instruments are not within the scope of Topic 606. We have elected to implement using the modified retrospective application, with the cumulative effect recorded as an adjustment to opening retained earnings at January 1, 2018. We will continue to evaluate any impact, including changes to related disclosures, as additional guidance is issued.

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, which is not yet effective. The effective date will be 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

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**Table of Contents**

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 an 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, which is not yet effective. The effective date will be 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.

**FASB ASC 944** In May 2015, the FASB issued an update (ASU No. 2015-09, *Disclosures about Short-Duration Contracts*). This update applies to all insurance entities that issue short-duration contracts as defined in Topic 944, Financial Services—Insurance. The amendment requires insurance entities to disclose for annual reporting periods information about the liability for unpaid claims and claim adjustment expenses, and information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a roll-forward of the liability for unpaid claims and claim adjustment expenses. The amendments in this update became effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016, and did not have a material impact on the consolidated financial statements.

**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

become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We are currently evaluating our equity investments to determine which will be impacted by the adoption of the new guidance.

**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

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**Table of Contents**

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 September 30, 2017, we do not expect the new standard to have a material impact on our income statement, but anticipate an \$80 million to \$100 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 405** In March 2016, the FASB issued ASU No. 2016-04, *Liabilities - Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products*. The amendments of this ASU narrowly address breakage, which is the monetary amount of the card that ultimately is not redeemed by the cardholder for prepaid stored-value products that are redeemable for monetary values of goods or services but may also be redeemable for cash. Examples of prepaid stored-value products included in this amendment are prepaid gift cards issued by specific payment networks and redeemable at network-accepting merchant locations, prepaid telecommunication cards, and traveler's checks. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 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 815** In March 2016, the FASB issued ASU No. 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*. The amendments apply to all reporting entities for which there is a change in the counterparty to a derivative instrument that has been designated as a hedging instrument. The amendments clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2016, and did not have a material impact on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. Topic 815, *Derivatives and Hedging*, requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met. One of those criteria is that the economic characteristics and risks of the embedded derivatives are not clearly and closely related to the economic characteristics and risks of the host contract. The amendments clarify what steps are required when assessing clearly and closely related. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2016, and did not have a material impact on the consolidated financial statements.

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 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. Current GAAP provides special hedge accounting only for the portion of the hedge deemed to be highly effective and requires an entity to separately reflect the amount by which the hedging instrument does 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

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**Table of Contents**

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. Current GAAP contains specific requirements for initial and ongoing quantitative hedge effectiveness testing and strict requirements for specialized effectiveness testing methods that allow 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.

**FASB ASC 323** In March 2016, the FASB issued ASU No. 2016-07, *Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*. The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments also require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2016, and did not have a material impact on the consolidated financial statements.

**FASB ASC 718** In March 2016, the FASB issued ASU No. 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting*. The amendments are intended to improve the accounting for employee shared-based payments and affects all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The amendments in this update became effective on January 1, 2017 and resulted in a \$0.1 million expense during the nine months ended September 30, 2017.

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 become effective for annual periods and interim periods within those annual periods beginning after December 15, 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 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-



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**Table of Contents**

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 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. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The amendments in this update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. 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 810** In October 2016, the FASB issued ASU No. 2016-17, *Consolidation (Topic 810): Interests Held through Related Parties that are under Common Control*. This update amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The primary beneficiary of a VIE is the reporting entity that has a controlling financial interest in a VIE and, therefore, consolidates the VIE. A reporting entity has an indirect interest in a VIE if it has a direct interest in a related party that, in turn, has a direct interest in the VIE. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2016, and did not have a material impact on the consolidated financial statements.

**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 become effective for annual periods and interim periods within those annual periods beginning after December 15, 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 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

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**Table of Contents**

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 amendment 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 are effective at the same time as the amendments in ASU 2014-09. Therefore, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. 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 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 become effective for annual periods and interim periods within those annual periods beginning after December 15, 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 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.

**Table of Contents****NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY****Acquisitions***Anchor BanCorp Wisconsin Inc.*

Effective May 1, 2016 (the Closing Date), Old National completed the acquisition of Madison, Wisconsin-based Anchor (WI) through a stock and cash merger. Anchor (WI) was a savings and loan holding company with AnchorBank (WI) as its wholly-owned subsidiary. AnchorBank (WI) operated 46 banking centers, including 32 banking centers in the Madison, Milwaukee, and Fox Valley triangle. Old National achieved cost savings by integrating the two companies and combining accounting, data processing, retail and lending support, and other administrative functions after the merger, which enabled Old National to achieve economies of scale in these areas.

Pursuant to the merger agreement, shareholders of Anchor (WI) could elect to receive either 3.5505 shares of Old National common stock or \$48.50 in cash for each share of Anchor (WI) they held, subject to a maximum of 40% of the purchase price in cash. The total fair value of consideration paid for Anchor (WI) was \$459.8 million, consisting of \$186.2 million of cash and the issuance of 20.4 million shares of Old National Common Stock valued at \$273.6 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values, while \$15.9 million of transaction and integration costs were expensed as incurred.

As of April 30, 2017, the Company finalized its valuation of all assets acquired and liabilities assumed, resulting in no material change to acquisition accounting adjustments. A summary of the consideration paid was allocated as follows (in thousands):

|  |                   |
|--|-------------------|
| Cash and cash equivalents                      | \$ 123,657        |
| Investment securities                          | 235,240           |
| Federal Home Loan Bank stock                   | 4,596             |
| Loans held for sale                            | 9,334             |
| Loans  | 1,637,806         |
| Premises and equipment                         | 35,721            |
| Accrued interest receivable                    | 7,308             |
| Other real estate owned                        | 17,349            |
| Company-owned life insurance                   | 7,278             |
| Other assets                                   | 126,210           |
| Deposits                                       | (1,852,713)       |
| Securities sold under agreements to repurchase | (3,132)           |
| Other borrowings                               | (123)             |
| Accrued expenses and other liabilities         | (36,957)          |
| <b>Net tangible assets acquired</b>            | <b>311,574</b>    |
| Definite-lived intangible assets acquired      | 21,559            |
| Loan servicing rights                          | 15,274            |
| Goodwill                                       | 111,347           |
| <b>Total consideration paid</b>                | <b>\$ 459,754</b> |

The portion of the consideration paid allocated to goodwill will not be deductible for tax purposes.

The estimated fair value of the core deposit intangible is \$21.6 million and is being amortized over an estimated useful life of 7 years.

**Table of Contents**

Acquired loan data for Anchor (WI) can be found in the table below:

| (in thousands)                                 | <b>Fair Value of<br/>Acquired<br/>Loans<br/>at Acquisition Date</b> | <b>Gross<br/>Contractual<br/>Amounts Receivable<br/>at Acquisition<br/>Date</b> | <b>Best Estimate<br/>at<br/>Acquisition Date of<br/>Contractual<br/>Cash<br/>Flows Not Expected<br/>to be<br/>Collected</b> |
|--|---|---|---|
| Acquired receivables subject to ASC 310-30     | \$ 20,174   | \$ 29,544   | \$ 6,153  |
| Acquired receivables not subject to ASC 310-30 | \$ 1,617,632  | \$ 2,143,532  | \$ 274,155  |

**Divestitures**

On May 31, 2016, the Company sold its insurance operations, ONI. The Company received approximately \$91.8 million in cash resulting in a pre-tax gain of \$41.9 million and an after-tax gain of \$17.6 million. Goodwill and intangible assets of approximately \$47.5 million were eliminated as part of this transaction. ONI was an ancillary business and did not meet the criteria to be treated as a discontinued operation as defined in Accounting Standards Update 2014-08 *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*.

Based on an ongoing assessment of our service and delivery network, the Company consolidated five branches during 2016 and an additional fifteen in January 2017. The Company plans to consolidate another fourteen branches in the fourth quarter of 2017.

**Pending Acquisition**

On August 7, 2017, Old National entered into an agreement to acquire St. Paul, Minnesota-based Anchor (MN) through a stock and cash merger. Anchor (MN) is a bank holding company with Anchor Bank (MN) as its wholly-owned subsidiary. Founded in 1967 and with 18 total branches, Anchor Bank (MN) is one of the largest community banks headquartered in the Twin Cities, and also serves Mankato, Minnesota. Anchor Bank (MN) has no affiliation with the former AnchorBank (WI) in Madison, Wisconsin, which Old National acquired in 2016. At June 30, 2017, Anchor Bank (MN) had total assets of \$2.1 billion and \$1.7 billion of deposit liabilities. Pursuant to the merger agreement, each holder of Anchor (MN) common stock will receive \$2.625 in cash and 1.350 shares of Old National common stock per share of Anchor (MN) common stock such holder owns. Based on Old National's September 29, 2017 closing price of \$18.30 per share, this represents a total transaction value of approximately \$334.2 million. The transaction value is likely to change up to the closing date, due to fluctuations in the price of Old National common stock and is also subject to adjustment under certain circumstances as provided in the merger agreement. The transaction has received regulatory and shareholder approval and closed on November 1, 2017.

**NOTE 4 NET INCOME PER SHARE**

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



**Table of Contents**

The following table reconciles basic and diluted net income per share for the three and nine months ended September 30, 2017 and 2016:

| (dollars and shares in thousands,<br>except per share data) | <b>Three Months Ended<br/>September 30,</b> |                | <b>Nine Months Ended<br/>September 30,</b> |                |
|---|---|----------------|--|----------------|
|   | <b>2017</b>                                 | <b>2016</b>    | <b>2017</b>                                | <b>2016</b>    |
| <b>Basic Earnings Per Share</b>                             |   |                |  |                |
| Net income  | \$ 39,372                                   | \$ 34,709      | \$ 114,218                                 | \$ 100,808     |
| Weighted average common shares outstanding                  | 135,120                                     | 134,492        | 135,040                                    | 125,366        |
| <b>Basic Net Income Per Share</b>                           | <b>\$ 0.30</b>                              | <b>\$ 0.25</b> | <b>\$ 0.85</b>                             | <b>\$ 0.80</b> |
| <b>Diluted Earnings Per Share</b>                           |   |                |  |                |
| Net income  | \$ 39,372                                   | \$ 34,709      | \$ 114,218                                 | \$ 100,808     |
| Weighted average common shares outstanding                  | 135,120                                     | 134,492        | 135,040                                    | 125,366        |
| Effect of dilutive securities:                              |   |                |  |                |
| Restricted stock  | 589   | 465            | 558  | 432            |
| Stock options (1)   | 87  | 54             | 95   | 41             |
| Weighted average shares outstanding                         | 135,796                                     | 135,011        | 135,693                                    | 125,839        |
| <b>Diluted Net Income Per Share</b>                         | <b>\$ 0.29</b>                              | <b>\$ 0.25</b> | <b>\$ 0.84</b>                             | <b>\$ 0.80</b> |

- (1) Options to purchase 0.1 million shares and 0.9 million shares outstanding at September 30, 2017 and 2016, respectively, were not included in the computation of net income per diluted share for the three months ended September 30, 2017 and 2016 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. Options to purchase 0.1 million shares and 0.8 million shares outstanding at September 30, 2017 and 2016, respectively, were not included in the computation of net income per diluted share for the nine months ended September 30, 2017 and 2016, respectively, 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.

**Table of Contents****NOTE 5 INVESTMENT SECURITIES**

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at September 30, 2017 and December 31, 2016 and the corresponding amounts of unrealized gains and losses therein:

| (dollars in thousands)                          | Amortized<br>Cost   | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value       |
|---|---------------------|---------------------|----------------------|---------------------|
| <b>September 30, 2017</b>                       |                     |                     |                      |                     |
| <b>Available-for-Sale</b>                       |                     |                     |                      |                     |
| U.S. Treasury                                   | \$ 5,472            | \$ 143              | \$                   | \$ 5,615            |
| U.S. government-sponsored entities and agencies | 583,151             | 86                  | (6,801)              | 576,436             |
| Mortgage-backed securities Agency               | 1,466,636           | 3,862               | (19,762)             | 1,450,736           |
| States and political subdivisions               | 410,856             | 6,569               | (2,752)              | 414,673             |
| Pooled trust preferred securities               | 16,651              |                     | (8,381)              | 8,270               |
| Other securities                                | 319,669             | 2,086               | (1,648)              | 320,107             |
| <b>Total available-for-sale securities</b>      | <b>\$ 2,802,435</b> | <b>\$ 12,746</b>    | <b>\$ (39,344)</b>   | <b>\$ 2,775,837</b> |
| <b>Held-to-Maturity</b>                         |                     |                     |                      |                     |
| Mortgage-backed securities Agency               | \$ 7,649            | \$ 254              | \$                   | \$ 7,903            |
| States and political subdivisions               | 681,302             | 51,359              |                      | 732,661             |
| <b>Total held-to-maturity securities</b>        | <b>\$ 688,951</b>   | <b>\$ 51,613</b>    | <b>\$</b>            | <b>\$ 740,564</b>   |
| <b>December 31, 2016</b>                        |                     |                     |                      |                     |
| <b>Available-for-Sale</b>                       |                     |                     |                      |                     |
| U.S. Treasury                                   | \$ 6,963            | \$ 140              | \$                   | \$ 7,103            |
| U.S. government-sponsored entities and agencies | 506,234             | 113                 | (12,391)             | 493,956             |
| Mortgage-backed securities Agency               | 1,551,465           | 6,923               | (33,369)             | 1,525,019           |
| States and political subdivisions               | 446,003             | 4,183               | (13,502)             | 436,684             |
| Pooled trust preferred securities               | 17,011              |                     | (8,892)              | 8,119               |
| Other securities                                | 331,001             | 1,074               | (5,782)              | 326,293             |
| <b>Total available-for-sale securities</b>      | <b>\$ 2,858,677</b> | <b>\$ 12,433</b>    | <b>\$ (73,936)</b>   | <b>\$ 2,797,174</b> |
| <b>Held-to-Maturity</b>                         |                     |                     |                      |                     |
| U.S. government-sponsored entities and agencies | \$ 40,131           | \$ 427              | \$                   | \$ 40,558           |
| Mortgage-backed securities Agency               | 10,640              | 300                 |                      | 10,940              |
| States and political subdivisions               | 694,319             | 38,915              | (560)                | 732,674             |
| <b>Total held-to-maturity securities</b>        | <b>\$ 745,090</b>   | <b>\$ 39,642</b>    | <b>\$ (560)</b>      | <b>\$ 784,172</b>   |

**Table of Contents**

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 and nine months ended September 30, 2017 and 2016:

| (dollars in thousands)                                    | Three Months Ended |                   | Nine Months Ended |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | September 30,      |                   | September 30,     |                   |
|   | 2017               | 2016              | 2017              | 2016              |
| Proceeds from sales of available-for-sale securities      | \$ 98,038          | \$ 50,368         | \$ 284,315        | \$ 157,819        |
| Proceeds from calls of available-for-sale securities      | 2,303              | 160,805           | 73,423            | 525,114           |
| <b>Total</b>  | <b>\$ 100,341</b>  | <b>\$ 211,173</b> | <b>\$ 357,738</b> | <b>\$ 682,933</b> |
| Realized gains on sales of available-for-sale securities  | \$ 2,891           | \$ 1,062          | \$ 7,174          | \$ 4,213          |
| Realized gains on calls of available-for-sale securities  | 13                 | 477               | 13                | 848               |
| Realized losses on sales of available-for-sale securities | (36)               | (2)               | (79)              | (450)             |
| Realized losses on calls of available-for-sale securities |                    | (15)              | (8)               | (103)             |
| Other securities gains (losses) (1)                       | 104                | 125               | 447               | 101               |
| <b>Net securities gains (losses)</b>                      | <b>\$ 2,972</b>    | <b>\$ 1,647</b>   | <b>\$ 7,547</b>   | <b>\$ 4,609</b>   |

(1) Other securities gains (losses) includes net realized 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 \$5.4 million at September 30, 2017 and \$5.0 million at December 31, 2016.

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

| (dollars in thousands)    | At September 30, 2017 |            |                        |
|---------------------------|-----------------------|------------|------------------------|
|                           | Amortized Cost        | Fair Value | Weighted Average Yield |
| <b>Maturity</b>           |                       |            |                        |
| <b>Available-for-Sale</b> |                       |            |                        |
| Within one year           | \$ 34,563             | \$ 34,686  | 2.36%                  |
| One to five years         | 338,424               | 339,100    | 2.11                   |
| Five to ten years         | 302,515               | 305,146    | 2.85                   |

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|                         |              |              |       |
|-------------------------|--------------|--------------|-------|
| Beyond ten years        | 2,126,933    | 2,096,905    | 2.43  |
| Total                   | \$ 2,802,435 | \$ 2,775,837 | 2.44% |
| <b>Held-to-Maturity</b> |              |              |       |
| Within one year         | \$ 23,751    | \$ 24,064    | 6.15% |
| One to five years       | 89,739       | 94,617       | 4.88  |
| Five to ten years       | 172,648      | 183,505      | 4.88  |
| Beyond ten years        | 402,813      | 438,378      | 5.75  |
| Total                   | \$ 688,951   | \$ 740,564   | 5.43% |

**Table of Contents**

The following table summarizes the investment securities with unrealized losses at September 30, 2017 and December 31, 2016 by aggregated major security type and length of time in a continuous unrealized loss position:

| (dollars in thousands)                          | Less than 12 months |                   | 12 months or longer |                   | Total        |                   |
|---|---------------------|-------------------|---------------------|-------------------|--------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value   | Unrealized Losses |
| <b>September 30, 2017</b>                       |                     |                   |                     |                   |              |                   |
| <b>Available-for-Sale</b>                       |                     |                   |                     |                   |              |                   |
| U.S. government-sponsored entities and agencies | \$ 406,906          | \$ (3,708)        | \$ 89,907           | \$ (3,093)        | \$ 496,813   | \$ (6,801)        |
| Mortgage-backed securities Agency               | 985,209             | (12,903)          | 190,224             | (6,859)           | 1,175,433    | (19,762)          |
| States and political subdivisions               | 104,214             | (1,612)           | 35,715              | (1,140)           | 139,929      | (2,752)           |
| Pooled trust preferred securities               |                     |                   | 8,270               | (8,381)           | 8,270        | (8,381)           |
| Other securities                                | 80,290              | (848)             | 85,583              | (800)             | 165,873      | (1,648)           |
| Total available-for-sale                        | \$ 1,576,619        | \$ (19,071)       | \$ 409,699          | \$ (20,273)       | \$ 1,986,318 | \$ (39,344)       |
| <b>Held-to-Maturity</b>                         |                     |                   |                     |                   |              |                   |
| States and political subdivisions               | \$ 465              | \$                | \$                  | \$                | \$ 465       | \$                |
| Total held-to-maturity                          | \$ 465              | \$                | \$                  | \$                | \$ 465       | \$                |
| <b>December 31, 2016</b>                        |                     |                   |                     |                   |              |                   |
| <b>Available-for-Sale</b>                       |                     |                   |                     |                   |              |                   |
| U.S. government-sponsored entities and agencies | \$ 432,192          | \$ (12,391)       | \$                  | \$                | \$ 432,192   | \$ (12,391)       |
| Mortgage-backed securities Agency               | 1,177,093           | (30,295)          | 57,636              | (3,074)           | 1,234,729    | (33,369)          |
| States and political subdivisions               | 286,351             | (13,247)          | 4,919               | (255)             | 291,270      | (13,502)          |
| Pooled trust preferred securities               |                     |                   | 8,119               | (8,892)           | 8,119        | (8,892)           |
| Other securities                                | 121,498             | (2,734)           | 126,539             | (3,048)           | 248,037      | (5,782)           |
| Total available-for-sale                        | \$ 2,017,134        | \$ (58,667)       | \$ 197,213          | \$ (15,269)       | \$ 2,214,347 | \$ (73,936)       |
| <b>Held-to-Maturity</b>                         |                     |                   |                     |                   |              |                   |
| States and political subdivisions               | \$ 59,481           | \$ (560)          | \$                  | \$                | \$ 59,481    | \$ (560)          |
| Total held-to-maturity                          | \$ 59,481           | \$ (560)          | \$                  | \$                | \$ 59,481    | \$ (560)          |

Management evaluates securities for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. 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. However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in FASB ASC 325-10 (EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in*

*Securitized Financial Assets).*

In determining OTTI under the FASB ASC 320 model, 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. The second segment of the portfolio uses the OTTI guidance provided by FASB ASC 325-10 (EITF 99-20) that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the FASB ASC 325-10 model, we compare the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

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**Table of Contents**

When OTTI occurs under either model, 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 nine months ended September 30, 2017 or 2016.

At September 30, 2017, Old National's securities portfolio consisted of 1,495 securities, 317 of which were in an unrealized loss position. The unrealized losses attributable to our 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 September 30, 2017, 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 September 30, 2017, our securities portfolio contained three pooled trust preferred securities with a fair value of \$8.3 million and unrealized losses of \$8.4 million. One of the pooled trust preferred securities in our portfolio falls within the scope of FASB ASC 325-10 (EITF 99-20) and has a fair value of \$0.3 million with an unrealized loss of \$2.5 million at September 30, 2017. This security was rated A3 at inception, but is rated D at September 30, 2017. The issuers in this security are banks. We use the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the CDO and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress this CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National's note class. For the nine months ended September 30, 2017 and 2016, our model indicated no OTTI losses on this security.

Two of our pooled trust preferred securities with a fair value of \$8.0 million and unrealized losses of \$5.9 million at September 30, 2017 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. For the nine months ended September 30, 2017 and 2016, our analysis indicated no OTTI on these securities.





**Table of Contents**

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. All three pooled trust preferred securities have experienced credit defaults. However, two of 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<br>September 30,<br>2017 | Class | Lowest<br>Credit<br>Rating (1) | Amortized<br>Cost | Fair<br>Value | Unrealized<br>Gain/<br>(Loss) | Realized<br>Losses<br>2017 | Actual<br>Deferrals<br>Expected<br>and<br>Default<br>Subordination |   |   |                                     |
|---|-------|--------------------------------|-------------------|---------------|-------------------------------|----------------------------|--|---|---|-------------------------------------|
|   |       |                                |                   |               |                               |                            | # of Issuers<br>as a %<br>of                                       | Remaining<br>Performing<br>Collateral<br>as a %<br>of | Current<br>Performing<br>Collateral<br>as a %<br>of |                                     |
| (dollars in<br>thousands)                           |       |                                |                   |               |                               |                            | Currently<br>Performing<br>Remaining                               | Original<br>Collateral                                | Remaining<br>Collateral                             | Current<br>Performing<br>Collateral |
| <b>Pooled trust preferred securities:</b>           |       |                                |                   |               |                               |                            |  |   |   |                                     |
| Reg Div Funding<br>2004                             | B-2   | D                              | \$ 2,738          | \$ 262        | \$ (2,476)                    | \$                         | 21/36  | 32.1%   | 7.5%  | 0.0%                                |
| Pretsl XXVII<br>LTD                                 | B     | B                              | 4,422             | 2,451         | (1,971)                       |                            | 35/44  | 16.7%   | 3.8%  | 47.9%                               |
| Trapeza Ser 13A                                     | A2A   | BBB                            | 9,491             | 5,557         | (3,934)                       |                            | 50/55  | 4.5%  | 4.6%  | 45.2%                               |
|   |       |                                | 16,651            | 8,270         | (8,381)                       |                            |  |   |   |                                     |
| <b>Single Issuer trust preferred securities:</b>    |       |                                |                   |               |                               |                            |  |   |   |                                     |
| Fleet Cap Tr V<br>(BOA)                             |       | BB+                            | 3,403             | 3,325         | (78)                          |                            |  |   |   |                                     |
| JP Morgan Chase<br>Cap XIII                         |       | BBB-                           | 4,775             | 4,609         | (166)                         |                            |  |   |   |                                     |
| NB-Global   |       | BB+                            | 799               | 949           | 150                           |                            |  |   |   |                                     |
| Chase Cap II  |       | BBB-                           | 833               | 935           | 102                           |                            |  |   |   |                                     |
|   |       |                                | 9,810             | 9,818         | 8                             |                            |  |   |   |                                     |
| Total   |       |                                | \$ 26,461         | \$ 18,088     | \$ (8,373)                    | \$                         |  |   |   |                                     |

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

**NOTE 6 LOANS HELD FOR SALE**

Mortgage loans held for immediate sale in the secondary market were \$30.2 million at September 30, 2017, compared to \$90.7 million at December 31, 2016. Residential loans that Old National has originated with the intent to sell are recorded at fair value in accordance with FASB ASC 825-10, *Financial Instruments*. Conventional mortgage production is sold on a servicing retained basis. Certain loans, such as government guaranteed mortgage loans are sold on servicing released basis.

**NOTE 7 LOANS AND ALLOWANCE FOR LOAN LOSSES**

Old National's finance receivables 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, and Wisconsin. Old National manages concentrations of credit exposure by industry, product, geography, customer relationship, and loan size, with no concentration of loans exceeding 10% of its portfolio.

**Table of Contents**

The composition of loans by lending classification was as follows:

| (dollars in thousands)    | September 30,<br>2017 | December 31,<br>2016 |
|---------------------------|-----------------------|----------------------|
| Commercial (1)            | \$ 2,049,054          | \$ 1,917,099         |
| Commercial real estate:   |                       |                      |
| Construction (2)          | 276,226               | 357,802              |
| Other (2)                 | 3,093,985             | 2,773,051            |
| Residential real estate   | 2,119,120             | 2,087,530            |
| Consumer credit:          |                       |                      |
| Home equity               | 477,100               | 476,439              |
| Auto                      | 1,165,289             | 1,167,737            |
| Other                     | 217,350               | 230,854              |
| <br>Total loans           | <br>9,398,124         | <br>9,010,512        |
| Allowance for loan losses | (50,169)              | (49,808)             |
| <br>Net loans             | <br>\$ 9,347,955      | <br>\$ 8,960,704     |

(1) Includes direct finance leases of \$8.7 million at September 30, 2017 and \$10.8 million at December 31, 2016.

(2) Certain commercial real estate construction loans were reclassified from commercial real estate other due to a misclassification at December 31, 2016.

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.

## **Table of Contents**

The acquisition of Anchor (WI) on May 1, 2016 added \$926.2 million of commercial real estate loans to our portfolio. At 188%, 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 September 30, 2017.

### **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. At September 30, 2017, student loans totaled \$70.2 million and are guaranteed by the government from 97% to 100%. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property or other collateral values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

### **Allowance for Loan Losses**

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

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

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

No allowance was brought forward on any of the acquired loans as any credit deterioration evident in the loans was included in the determination of the fair value of the loans at the acquisition date. An allowance for loan losses will be

established for any subsequent credit deterioration or adverse changes in expected cash flows.

**Table of Contents**

Old National's activity in the allowance for loan losses for the three and nine months ended September 30, 2017 and 2016 was as follows:

| (dollars in thousands)                       | <b>Commercial<br/>Real</b> |               |                    |                 | <b>Total</b> |
|--|----------------------------|---------------|--------------------|-----------------|--------------|
|  | <b>Commercial</b>          | <b>Estate</b> | <b>Residential</b> | <b>Consumer</b> |              |
| <b>Three Months Ended September 30, 2017</b> |                            |               |                    |                 |              |
| Balance at beginning of period               | \$ 20,365                  | \$ 20,654     | \$ 1,811           | \$ 8,156        | \$ 50,986    |
| Charge-offs                                  | (70)                       | (1,148)       | (227)              | (1,376)         | (2,821)      |
| Recoveries                                   | 255                        | 339           | 89                 | 1,010           | 1,693        |
| Provision                                    | (23)                       | 180           | 236                | (82)            | 311          |
| Balance at end of period                     | \$ 20,527                  | \$ 20,025     | \$ 1,909           | \$ 7,708        | \$ 50,169    |
| <b>Three Months Ended September 30, 2016</b> |                            |               |                    |                 |              |
| Balance at beginning of period               | \$ 24,156                  | \$ 18,208     | \$ 1,459           | \$ 7,981        | \$ 51,804    |
| Charge-offs                                  | (1,681)                    | (1,378)       | (140)              | (1,320)         | (4,519)      |
| Recoveries                                   | 594                        | 1,548         | 2,174              | (1,360)         | 2,956        |
| Provision                                    | 1,461                      | (1,033)       | (1,963)            | 2,841           | 1,306        |
| Balance at end of period                     | \$ 24,530                  | \$ 17,345     | \$ 1,530           | \$ 8,142        | \$ 51,547    |
| <b>Nine Months Ended September 30, 2017</b>  |                            |               |                    |                 |              |
| Balance at beginning of period               | \$ 21,481                  | \$ 18,173     | \$ 1,643           | \$ 8,511        | \$ 49,808    |
| Charge-offs                                  | (951)                      | (2,784)       | (954)              | (4,751)         | (9,440)      |
| Recoveries                                   | 1,647                      | 3,086         | 196                | 2,859           | 7,788        |
| Provision                                    | (1,650)                    | 1,550         | 1,024              | 1,089           | 2,013        |
| Balance at end of period                     | \$ 20,527                  | \$ 20,025     | \$ 1,909           | \$ 7,708        | \$ 50,169    |
| <b>Nine Months Ended September 30, 2016</b>  |                            |               |                    |                 |              |
| Balance at beginning of period               | \$ 26,347                  | \$ 15,993     | \$ 2,051           | \$ 7,842        | \$ 52,233    |
| Charge-offs                                  | (3,640)                    | (2,440)       | (360)              | (4,698)         | (11,138)     |
| Recoveries                                   | 2,288                      | 2,935         | 2,387              | 126             | 7,736        |
| Provision                                    | (465)                      | 857           | (2,548)            | 4,872           | 2,716        |
| Balance at end of period                     | \$ 24,530                  | \$ 17,345     | \$ 1,530           | \$ 8,142        | \$ 51,547    |

**Table of Contents**

The following table provides Old National's recorded investment in financing receivables by portfolio segment at September 30, 2017 and December 31, 2016 and other information regarding the allowance:

| (dollars in thousands)                          | Commercial   | Commercial<br>Real Estate | Residential  | Consumer     | Total        |
|---|--------------|---------------------------|--------------|--------------|--------------|
| <b>September 30, 2017</b>                       |              |                           |              |              |              |
| <b>Allowance for loan losses:</b>               |              |                           |              |              |              |
| Individually evaluated for impairment           | \$ 4,456     | \$ 6,486                  | \$           | \$           | \$ 10,942    |
| Collectively evaluated for impairment           | 16,048       | 13,520                    | 1,909        | 7,552        | 39,029       |
| Loans acquired with deteriorated credit quality | 23           | 19                        |              | 156          | 198          |
| Total allowance for loan losses                 | \$ 20,527    | \$ 20,025                 | \$ 1,909     | \$ 7,708     | \$ 50,169    |
| <b>Loans and leases outstanding:</b>            |              |                           |              |              |              |
| Individually evaluated for impairment           | \$ 33,275    | \$ 62,442                 | \$           | \$           | \$ 95,717    |
| Collectively evaluated for impairment           | 2,015,185    | 3,287,914                 | 2,107,253    | 1,853,875    | 9,264,227    |
| Loans acquired with deteriorated credit quality | 594          | 19,855                    | 11,867       | 5,864        | 38,180       |
| Total loans and leases outstanding              | \$ 2,049,054 | \$ 3,370,211              | \$ 2,119,120 | \$ 1,859,739 | \$ 9,398,124 |
| <b>December 31, 2016</b>                        |              |                           |              |              |              |
| <b>Allowance for loan losses:</b>               |              |                           |              |              |              |
| Individually evaluated for impairment           | \$ 4,561     | \$ 3,437                  | \$           | \$           | \$ 7,998     |
| Collectively evaluated for impairment           | 16,838       | 14,717                    | 1,643        | 8,334        | 41,532       |
| Loans acquired with deteriorated credit quality | 82           | 19                        |              | 177          | 278          |
| Total allowance for loan losses                 | \$ 21,481    | \$ 18,173                 | \$ 1,643     | \$ 8,511     | \$ 49,808    |
| <b>Loans and leases outstanding:</b>            |              |                           |              |              |              |
| Individually evaluated for impairment           | \$ 45,960    | \$ 57,230                 | \$           | \$           | \$ 103,190   |
| Collectively evaluated for impairment           | 1,870,289    | 3,040,849                 | 2,073,950    | 1,866,815    | 8,851,903    |
| Loans acquired with deteriorated credit quality | 850          | 32,774                    | 13,580       | 8,215        | 55,419       |
| Total loans and leases outstanding              | \$ 1,917,099 | \$ 3,130,853              | \$ 2,087,530 | \$ 1,875,030 | \$ 9,010,512 |



**Table of Contents****Credit Quality**

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

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

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

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

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

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

The risk category of commercial and commercial real estate loans by class of loans at September 30, 2017 and December 31, 2016 was as follows:

| Corporate Credit Exposure<br>Credit Risk Profile by<br>Internally Assigned Grade | Commercial             |                      | Commercial<br>Real Estate<br>Construction |                      | Commercial<br>Real Estate<br>Other |                      |
|--|------------------------|----------------------|---|----------------------|------------------------------------|----------------------|
|  | September 30,<br>2017  | December 31,<br>2016 | September 30,<br>2017                     | December 31,<br>2016 | September 30,<br>2017              | December 31,<br>2016 |
|  | (dollars in thousands) |                      |   |                      |                                    |                      |
| Grade:   |                        |                      |   |                      |                                    |                      |
| Pass   | \$ 1,944,997           | \$ 1,750,923         | \$ 261,500                                | \$ 347,325           | \$ 2,911,548                       | \$ 2,669,890         |
| Criticized   | 41,004                 | 45,614               | 14,726                                    | 9,258                | 74,467                             | 40,590               |
| Classified substandard   | 33,524                 | 63,978               |   | 49                   | 50,842                             | 19,715               |
| Classified nonaccrual  | 26,981                 | 53,062               |   | 1,170                | 30,693                             | 33,833               |
| Classified doubtful  | 2,548                  | 3,522                |   |                      | 26,435                             | 9,023                |

|       |                     |              |                   |            |                     |              |
|-------|---------------------|--------------|-------------------|------------|---------------------|--------------|
| Total | <b>\$ 2,049,054</b> | \$ 1,917,099 | <b>\$ 276,226</b> | \$ 357,802 | <b>\$ 3,093,985</b> | \$ 2,773,051 |
|-------|---------------------|--------------|-------------------|------------|---------------------|--------------|

**Table of Contents**

Old National considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, Old National also evaluates credit quality based on the aging status of the loan and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity at September 30, 2017 and December 31, 2016:

| (dollars in thousands)    | Residential  | Consumer    |              |            |
|---------------------------|--------------|-------------|--------------|------------|
|                           |              | Home Equity | Auto         | Other      |
| <b>September 30, 2017</b> |              |             |              |            |
| Performing                | \$ 2,099,585 | \$ 471,827  | \$ 1,162,634 | \$ 212,214 |
| Nonperforming             | 19,535       | 5,273       | 2,655        | 5,136      |
| Total                     | \$ 2,119,120 | \$ 477,100  | \$ 1,165,289 | \$ 217,350 |
| <b>December 31, 2016</b>  |              |             |              |            |
| Performing                | \$ 2,069,856 | \$ 472,008  | \$ 1,166,114 | \$ 223,786 |
| Nonperforming             | 17,674       | 4,431       | 1,623        | 7,068      |
| Total                     | \$ 2,087,530 | \$ 476,439  | \$ 1,167,737 | \$ 230,854 |

**Impaired Loans**

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

**Table of Contents**

The following table shows Old National's impaired loans at September 30, 2017 and December 31, 2016, respectively. Only purchased loans that have experienced subsequent impairment since the date acquired are included in the table below.

| (dollars in thousands)              | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance |
|-------------------------------------|------------------------|--------------------------------|----------------------|
| <b>September 30, 2017</b>           |                        |                                |                      |
| With no related allowance recorded: |                        |                                |                      |
| Commercial                          | \$ 25,393              | \$ 26,374                      | \$                   |
| Commercial Real Estate Other        | 31,928                 | 33,687                         |                      |
| Residential                         | 2,464                  | 2,485                          |                      |
| Consumer                            | 1,924                  | 2,140                          |                      |
| With an allowance recorded:         |                        |                                |                      |
| Commercial                          | 7,882                  | 7,882                          | 4,456                |
| Commercial Real Estate Other        | 30,514                 | 30,770                         | 6,486                |
| Residential                         | 882                    | 882                            | 44                   |
| Consumer                            | 2,269                  | 2,269                          | 112                  |
| Total                               | \$ 103,256             | \$ 106,489                     | \$ 11,098            |
| <b>December 31, 2016</b>            |                        |                                |                      |
| With no related allowance recorded: |                        |                                |                      |
| Commercial                          | \$ 29,001              | \$ 29,634                      | \$                   |
| Commercial Real Estate Other        | 30,585                 | 32,413                         |                      |
| Residential                         | 1,610                  | 1,631                          |                      |
| Consumer                            | 827                    | 946                            |                      |
| With an allowance recorded:         |                        |                                |                      |
| Commercial                          | 16,959                 | 17,283                         | 4,561                |
| Commercial Real Estate Other        | 26,645                 | 27,177                         | 3,437                |
| Residential                         | 1,081                  | 1,081                          | 54                   |
| Consumer                            | 1,924                  | 1,924                          | 96                   |
| Total                               | \$ 108,632             | \$ 112,089                     | \$ 8,148             |

The average balance of impaired loans during the three and nine months ended September 30, 2017 and 2016 are included in the table below.

| (dollars in thousands)              | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|-------------------------------------|-------------------------------------|------|------------------------------------|------|
|                                     | 2017                                | 2016 | 2017                               | 2016 |
| <b>Average Recorded Investment</b>  |                                     |      |                                    |      |
| With no related allowance recorded: |                                     |      |                                    |      |

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|                                     |                   |                   |                   |                   |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Commercial                          | \$ 24,234         | \$ 35,513         | \$ 27,197         | \$ 37,581         |
| Commercial Real Estate Other        | 33,268            | 40,971            | 31,258            | 37,937            |
| Residential                         | 2,482             | 1,233             | 2,405             | 1,270             |
| Consumer                            | 1,755             | 878               | 1,786             | 865               |
| With an allowance recorded:         |                   |                   |                   |                   |
| Commercial                          | 7,792             | 17,334            | 8,086             | 16,072            |
| Commercial Real Estate Construction |                   |                   |                   | 119               |
| Commercial Real Estate Other        | 30,846            | 15,119            | 28,580            | 15,977            |
| Residential                         | 1,011             | 1,099             | 1,059             | 1,072             |
| Consumer                            | 2,163             | 2,385             | 2,136             | 2,515             |
| <b>Total</b>                        | <b>\$ 103,551</b> | <b>\$ 114,532</b> | <b>\$ 102,507</b> | <b>\$ 113,408</b> |

**Table of Contents**

The Company does not record interest on nonaccrual loans until principal is recovered. Interest income recognized on impaired loans during the three and nine months ended September 30, 2017 and 2016 was immaterial.

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

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

Old National's past due financing receivables at September 30, 2017 and December 31, 2016 were as follows:

| (dollars in thousands)    | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | Recorded<br>Investment ><br>90 Days<br>and<br>Accruing | Nonaccrual        | Total<br>Past Due | Current             |
|---------------------------|------------------------|------------------------|--|-------------------|-------------------|---------------------|
| <b>September 30, 2017</b> |                        |                        |  |                   |                   |                     |
| Commercial                | \$ 296                 | \$ 100                 | \$ 251   | \$ 29,529         | \$ 30,176         | \$ 2,018,878        |
| Commercial Real Estate:   |                        |                        |  |                   |                   |                     |
| Construction              |                        |                        |  |                   |                   | 276,226             |
| Other                     | 150                    |                        |  | 57,128            | 57,278            | 3,036,707           |
| Residential               | 16,091                 | 3,235                  | 232  | 19,535            | 39,093            | 2,080,027           |
| Consumer:                 |                        |                        |  |                   |                   |                     |
| Home equity               | 939                    | 314                    | 88   | 5,273             | 6,614             | 470,486             |
| Auto                      | 5,535                  | 977                    | 282  | 2,655             | 9,449             | 1,155,840           |
| Other                     | 2,864                  | 1,159                  | 26   | 5,136             | 9,185             | 208,165             |
| <b>Total loans</b>        | <b>\$ 25,875</b>       | <b>\$ 5,785</b>        | <b>\$ 879</b>  | <b>\$ 119,256</b> | <b>\$ 151,795</b> | <b>\$ 9,246,329</b> |
| <b>December 31, 2016</b>  |                        |                        |  |                   |                   |                     |
| Commercial                | \$ 847                 | \$ 279                 | \$ 23  | \$ 56,585         | \$ 57,734         | \$ 1,859,365        |
| Commercial Real Estate:   |                        |                        |  |                   |                   |                     |
| Construction              |                        |                        |  | 1,170             | 1,170             | 356,632             |
| Other                     | 1,652                  | 150                    |  | 42,856            | 44,658            | 2,728,393           |
| Residential               | 17,786                 | 3,770                  | 2  | 17,674            | 39,232            | 2,048,298           |
| Consumer:                 |                        |                        |  |                   |                   |                     |
| Home equity               | 1,511                  | 423                    |  | 4,431             | 6,365             | 470,074             |
| Auto                      | 5,903                  | 1,037                  | 242  | 1,623             | 8,805             | 1,158,932           |

|             |           |          |        |            |            |              |
|-------------|-----------|----------|--------|------------|------------|--------------|
| Other       | 3,561     | 1,919    | 61     | 7,068      | 12,609     | 218,245      |
| Total loans | \$ 31,260 | \$ 7,578 | \$ 328 | \$ 131,407 | \$ 170,573 | \$ 8,839,939 |

### Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At September 30, 2017, these loans totaled \$541.6 million, of which \$271.7 million had been sold to other financial institutions and \$269.9 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder; involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder; all cash flows are divided among the participating interest holders in proportion to each holder's share of ownership; and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

**Table of Contents**

**Troubled Debt Restructurings**

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

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

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

If we are unable to resolve a nonperforming loan issue, the credit will be charged off when it is apparent there will be a loss. For large commercial type loans, each relationship is individually analyzed for evidence of apparent loss based on quantitative benchmarks or subjectively based upon certain events or particular circumstances. Generally, Old National charges off small commercial loans scored through our small business credit center with contractual balances under \$250,000 that have been placed on nonaccrual status or became 90 days or more delinquent, without regard to the collateral position. For residential and consumer loans, a charge off is recorded at the time foreclosure is initiated or when the loan becomes 120 to 180 days past due, whichever is earlier.

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

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



**Table of Contents**

The following table presents activity in TDRs for the nine months ended September 30, 2017 and 2016:

| (dollars in thousands)                      | Commercial<br>Real Estate |           |             |          | Consumer  | Total |
|---|---------------------------|-----------|-------------|----------|-----------|-------|
|   | Commercial                | Estate    | Residential |          |           |       |
| <b>Nine Months Ended September 30, 2017</b> |                           |           |             |          |           |       |
| Balance at beginning of period              | \$ 16,802                 | \$ 18,327 | \$ 2,985    | \$ 2,602 | \$ 40,716 |       |
| (Charge-offs)/recoveries                    | (5)                       | 366       |             | (58)     | 303       |       |
| Payments                                    | (10,024)                  | (3,849)   | (589)       | (970)    | (15,432)  |       |
| Additions                                   | 12,599                    | 17,429    | 937         | 2,568    | 33,533    |       |
| Interest collected on nonaccrual loans      | 2,420                     | 431       | 13          | 51       | 2,915     |       |
| Balance at end of period                    | \$ 21,792                 | \$ 32,704 | \$ 3,346    | \$ 4,193 | \$ 62,035 |       |
| <b>Nine Months Ended September 30, 2016</b> |                           |           |             |          |           |       |
| Balance at beginning of period              | \$ 23,354                 | \$ 14,602 | \$ 2,693    | \$ 3,602 | \$ 44,251 |       |
| (Charge-offs)/recoveries                    | (1,098)                   | 148       | 42          | (27)     | (935)     |       |
| Payments                                    | (17,517)                  | (6,050)   | (482)       | (1,273)  | (25,322)  |       |
| Additions                                   | 12,367                    | 10,581    | 335         | 385      | 23,668    |       |
| Interest collected on nonaccrual loans      | 1,569                     | 523       |             |          | 2,092     |       |
| Balance at end of period                    | \$ 18,675                 | \$ 19,804 | \$ 2,588    | \$ 2,687 | \$ 43,754 |       |

Approximately \$43.7 million of the TDRs at September 30, 2017 were included with nonaccrual loans, compared to \$26.3 million at December 31, 2016. Old National has allocated specific reserves to customers whose loan terms have been modified in TDRs totaling \$6.5 million at September 30, 2017 and \$4.0 million at December 31, 2016. At September 30, 2017, Old National had committed to lend an additional \$3.9 million to customers with outstanding loans that are classified as TDRs.

The pre-modification and post-modification outstanding recorded investments of loans modified as TDRs during the nine months ended September 30, 2017 and 2016 are the same except for when the loan modifications involve the forgiveness of principal. The following table presents loans by class modified as TDRs that occurred during the nine months ended September 30, 2017 and 2016:

| (dollars in thousands)                      | Pre-modification   |                                    | Post-modification  |                                    |
|---|--------------------|------------------------------------|--------------------|------------------------------------|
|   | Number<br>of Loans | Outstanding Recorded<br>Investment | Number<br>of Loans | Outstanding Recorded<br>Investment |
| <b>Nine Months Ended September 30, 2017</b> |                    |                                    |                    |                                    |
| TDR:  |                    |                                    |                    |                                    |
| Commercial                                  | 9                  | \$ 12,599                          | 9                  | \$ 12,599                          |
| Commercial Real Estate Other                | 10                 | 17,429                             | 10                 | 17,429                             |
| Residential                                 | 6                  | 937                                | 6                  | 937                                |
| Consumer                                    | 7                  | 2,568                              | 7                  | 2,568                              |

|       |    |    |        |    |        |
|-------|----|----|--------|----|--------|
| Total | 32 | \$ | 33,533 | \$ | 33,533 |
|-------|----|----|--------|----|--------|

**Nine Months Ended September 30, 2016****TDR:**

|                              |    |    |        |    |        |
|------------------------------|----|----|--------|----|--------|
| Commercial                   | 17 | \$ | 12,367 | \$ | 12,367 |
| Commercial Real Estate Other | 9  |    | 10,581 |    | 10,581 |
| Residential                  | 3  |    | 335    |    | 335    |
| Consumer                     | 8  |    | 385    |    | 385    |
| Total                        | 37 | \$ | 23,668 | \$ | 23,668 |

The TDRs that occurred during the nine months ended September 30, 2017 increased the allowance for loan losses by \$3.2 million and resulted in no charge-offs during the nine months ended September 30, 2017. The TDRs that occurred during the nine months ended September 30, 2016 decreased the allowance for loan losses by \$0.3 million due to a change in collateral position on a large commercial loan and resulted in \$0.8 million of charge-offs during the nine months ended September 30, 2016.

## **Table of Contents**

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

There were no loans that were modified as TDRs within the preceding twelve months, and for which there was a payment default during the nine months ended September 30, 2017.

There were 6 commercial loans and 1 commercial real estate loan totaling \$0.6 million that were modified as TDRs within the preceding twelve months, and for which there was a payment default during the nine months ended September 30, 2016.

The terms of certain other loans were modified during the nine months ended September 30, 2017 that did not meet the definition of a TDR. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under our internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or the delay in a payment.

PCI loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the PCI loan is being accounted for as part of a pool, it will not be removed from the pool. As of September 30, 2017, it has not been necessary to remove any loans from PCI accounting.

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

## **Purchased Credit Impaired Loans**

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. In determining the estimated fair value of purchased loans, management considers a number of factors including, among others, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, and net present value of cash flows expected to be received. Purchased loans are accounted for in accordance with guidance for certain loans acquired in a transfer (ASC 310-30), when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest

payments. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in expected cash flows will result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

**Table of Contents**

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

| (dollars in thousands)            | September 30,<br>2017 | December 31,<br>2016 |
|-----------------------------------|-----------------------|----------------------|
| Commercial                        | \$ 594                | \$ 850               |
| Commercial real estate            | 19,855                | 32,774               |
| Residential                       | 11,867                | 13,580               |
| Consumer                          | 5,864                 | 8,215                |
| Carrying amount                   | 38,180                | 55,419               |
| Allowance for loan losses         | (198)                 | (278)                |
| Carrying amount, net of allowance | \$ 37,982             | \$ 55,141            |

The outstanding balance of loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was \$241.1 million at September 30, 2017 and \$268.0 million at December 31, 2016.

The accretable difference on purchased loans acquired in a business combination is the difference between the expected cash flows and the net present value of expected cash flows with such difference accreted into earnings using the effective yield method over the term of the loans. Accretion recorded as loan interest income totaled \$12.8 million during the nine months ended September 30, 2017 and \$18.2 million during the nine months ended September 30, 2016. Improvement in cash flow expectations has resulted in a reclassification from nonaccretable difference to accretable yield as shown in the table below.

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

| (dollars in thousands)                               | Nine Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2017                               | 2016      |
| Balance at beginning of period                       | \$ 33,603                          | \$ 45,310 |
| New loans purchased (1)                              |                                    | 3,217     |
| Accretion of income                                  | (12,775)                           | (18,202)  |
| Reclassifications from (to) nonaccretable difference | 6,567                              | 7,538     |
| Disposals/other adjustments                          | 277                                | 961       |
| Balance at end of period                             | \$ 27,672                          | \$ 38,824 |

(1) Old National acquired Anchor (WI) effective May 1, 2016.

Included in Old National's allowance for loan losses is \$0.2 million related to the purchased loans disclosed above at September 30, 2017, compared to \$0.3 million at December 31, 2016.

PCI loans purchased during 2016 for which it was probable at acquisition that all contractually required payments would not be collected were as follows:

| (dollars in thousands)                             | <b>Anchor (WI) (1)</b> |
|--|------------------------|
| Contractually required payments                    | \$ 29,544              |
| Nonaccretable difference                           | (6,153)                |
| Cash flows expected to be collected at acquisition | 23,391                 |
| Accretable yield                                   | (3,217)                |
| Fair value of acquired loans at acquisition        | \$ 20,174              |

(1) Old National acquired Anchor (WI) effective May 1, 2016.

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

**Table of Contents****NOTE 8 OTHER REAL ESTATE OWNED**

The following table presents activity in other real estate owned for the nine months ended September 30, 2017 and 2016:

| (dollars in thousands)         | Nine Months Ended<br>September 30, |           |
|--------------------------------|------------------------------------|-----------|
|                                | 2017                               | 2016      |
| Balance at beginning of period | \$ 18,546                          | \$ 12,498 |
| Additions (1)                  | 2,695                              | 24,337    |
| Sales                          | (8,695)                            | (10,503)  |
| Impairment                     | (2,287)                            | (2,613)   |
| Balance at end of period (2)   | \$ 10,259                          | \$ 23,719 |

(1) Additions for the nine months ended September 30, 2016 include other real estate owned of \$17.3 million acquired from Anchor (WI) in May 2016.

(2) Includes repossessed personal property of \$0.1 million at September 30, 2017 and \$0.2 million at September 30, 2016.

At September 30, 2017, foreclosed residential real estate property included in the table above totaled \$0.7 million. At September 30, 2017, consumer mortgage loans collateralized by residential real property that were in the process of foreclosure totaled \$3.9 million.

**NOTE 9 PREMISES AND EQUIPMENT**

The composition of premises and equipment at September 30, 2017 and December 31, 2016 was as follows:

| (dollars in thousands)             | September 30,<br>2017 | December 31,<br>2016 |
|------------------------------------|-----------------------|----------------------|
| Land                               | \$ 66,806             | \$ 71,769            |
| Buildings                          | 319,371               | 322,165              |
| Furniture, fixtures, and equipment | 100,756               | 102,631              |
| Leasehold improvements             | 29,270                | 28,555               |
| Total                              | 516,203               | 525,120              |
| Accumulated depreciation           | (103,715)             | (95,498)             |
| Premises and equipment, net        | \$ 412,488            | \$ 429,622           |

Depreciation expense was \$5.8 million for the three months ended September 30, 2017 and \$16.2 million for the nine months ended September 30, 2017, compared to \$3.9 million for the three months ended September 30, 2016 and \$11.4 million for the nine months ended September 30, 2016.

## **Operating Leases**

Old National rents certain premises and equipment under operating leases, which expire at various dates. Many of these leases require the payment of property taxes, insurance premiums, maintenance, and other costs. In some cases, rentals are subject to increase in relation to a cost-of-living index. The leases have original terms ranging from less than one year to twenty-four years, and Old National has the right, at its option, to extend the terms of certain leases for four additional successive terms of five years. Old National does not have any material sub-lease agreements. Rent expense was \$3.9 million for the three months ended September 30, 2017 and \$11.6 million for the nine months ended September 30, 2017, compared to \$6.4 million for the three months ended September 30, 2016 and \$20.1 million for the nine months ended September 30, 2016.

Old National had deferred gains remaining associated with prior sale leaseback transactions totaling \$8.6 million at September 30, 2017 and \$10.3 million at December 31, 2016. The gains will be recognized over the remaining term of the leases. The leases had original terms ranging from five to twenty-four years.



**Table of Contents****Capital Leases**

Old National leases a branch building and certain equipment under capital leases. See Note 15 to the consolidated financial statements for detail regarding these leases.

**NOTE 10 GOODWILL AND OTHER INTANGIBLE ASSETS**

The following table shows the changes in the carrying amount of goodwill for the nine months ended September 30, 2017 and 2016:

| (dollars in thousands)         | Nine Months Ended<br>September 30, |            |
|--------------------------------|------------------------------------|------------|
|                                | 2017                               | 2016       |
| Balance at beginning of period | \$ 655,018                         | \$ 584,634 |
| Acquisitions                   |                                    | 111,539    |
| Divestitures                   |                                    | (40,963)   |
| Balance at end of period       | \$ 655,018                         | \$ 655,210 |

Goodwill is reviewed annually for impairment. No events or circumstances since the August 31, 2017 annual impairment test were noted that would indicate it was more likely than not a goodwill impairment exists.

The gross carrying amount and accumulated amortization of other intangible assets at September 30, 2017 and December 31, 2016 were as follows:

| (dollars in thousands)       | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization<br>and Impairment | Net<br>Carrying<br>Amount |
|------------------------------|-----------------------------|---|---------------------------|
| <b>September 30, 2017</b>    |                             |   |                           |
| Core deposit                 | \$ 81,663                   | \$ (60,002)                                   | \$ 21,661                 |
| Customer trust relationships | 16,547                      | (9,106)                                       | 7,441                     |
| Customer loan relationships  | 4,413                       | (4,280)                                       | 133                       |
| Total intangible assets      | \$ 102,623                  | \$ (73,388)                                   | \$ 29,235                 |
| <b>December 31, 2016</b>     |                             |   |                           |
| Core deposit                 | \$ 81,663                   | \$ (53,214)                                   | \$ 28,449                 |
| Customer trust relationships | 16,547                      | (7,753)                                       | 8,794                     |
| Customer loan relationships  | 4,413                       | (3,979)                                       | 434                       |
| Total intangible assets      | \$ 102,623                  | \$ (64,946)                                   | \$ 37,677                 |

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

Old National reviews other intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. No impairment charges were recorded during the nine months ended September 30, 2017 or 2016. Total amortization expense associated with intangible assets was \$8.4 million for the nine months ended September 30, 2017 and \$9.2 million for the nine months ended September 30, 2016.

**Table of Contents**

Estimated amortization expense for future years is as follows:

| (dollars in thousands) |                  |
|------------------------|------------------|
| 2017 remaining         | \$ 2,573         |
| 2018                   | 8,687            |
| 2019                   | 6,737            |
| 2020                   | 4,883            |
| 2021                   | 3,111            |
| Thereafter             | 3,244            |
| <b>Total</b>           | <b>\$ 29,235</b> |

**NOTE 11 LOAN SERVICING RIGHTS**

At September 30, 2017, loan servicing rights derived from loans sold with servicing retained totaled \$24.9 million, compared to \$25.6 million at December 31, 2016. Loans serviced for others are not reported as assets. The principal balance of loans serviced for others was \$3.334 billion at September 30, 2017, compared to \$3.385 billion at December 31, 2016. Approximately 99% of the loans serviced for others at September 30, 2017 were residential mortgage loans. Custodial escrow balances maintained in connection with serviced loans were \$42.5 million at September 30, 2017 and \$5.3 million at December 31, 2016.

The following table summarizes the carrying values and activity related to loan servicing rights and the related valuation allowance for the nine months ended September 30, 2017 and 2016:

| (dollars in thousands)                              | Nine Months Ended     |                  |
|---|-----------------------|------------------|
|   | September 30,<br>2017 | 2016             |
| Balance at beginning of period                      | \$ 25,629             | \$ 10,502        |
| Additions (1)                                       | 3,180                 | 18,965           |
| Amortization  | (3,855)               | (3,537)          |
| Balance before valuation allowance at end of period | 24,954                | 25,930           |
| Valuation allowance:                                |                       |                  |
| Balance at beginning of period                      | (68)                  | (34)             |
| (Additions)/recoveries                              | 14                    | 24               |
| Balance at end of period                            | (54)                  | (10)             |
| <b>Loan servicing rights, net</b>                   | <b>\$ 24,900</b>      | <b>\$ 25,920</b> |

(1)

Additions for the nine months ended September 30, 2016 include loan servicing rights of \$15.3 million acquired from Anchor (WI) in May 2016.

At September 30, 2017, the fair value of servicing rights was \$26.0 million, which was determined using a discount rate of 13% and a weighted average prepayment speed of 138% PSA. At December 31, 2016, the fair value of servicing rights was \$26.8 million, which was determined using a discount rate of 13% and a weighted average prepayment speed of 136% PSA.

#### **NOTE 12 QUALIFIED AFFORDABLE HOUSING PROJECTS AND OTHER TAX CREDIT INVESTMENTS**

The Company is a limited partner in several tax-advantaged limited partnerships whose purpose is to invest in approved qualified affordable housing or other renovation or community revitalization projects. These investments are included in other assets on the balance sheet, with any unfunded commitments included with other liabilities. Certain of these assets qualify for the proportional amortization method and are amortized over the period that the Company expects to receive the tax credits, with the expense included within income tax expense on the consolidated statements of income. The other investments are accounted for under the equity method, with the expense included within pre-tax income on the consolidated statements of income. All of the Company's tax credit investments are evaluated for impairment at the end of each reporting period. As of September 30, 2017, the Company expects to recover its remaining investments through the use of the tax credits that were generated by the investments.

**Table of Contents**

The following table summarizes Old National's investments in LIHTCs, FHTCs, and CReEDs at September 30, 2017 and December 31, 2016:

| Investment                             | Accounting Method         | September 30, 2017 |                         | December 31, 2016 |                     |
|--|---------------------------|--------------------|-------------------------|-------------------|---------------------|
|  |                           | Investment         | Unfunded Commitment (1) | Investment        | Unfunded Commitment |
| LIHTC and other qualifying investments | Proportional amortization | \$ 32,649          | \$ 19,607               | \$ 29,110         | \$ 16,210           |
| FHTC                                   | Equity                    | 17,411             | 11,591                  | 4,434             | 3,104               |
| CReED                                  | Equity                    | 1,504              | 1,502                   | 1,504             | 1,502               |
| Total                                  |                           | \$ 51,564          | \$ 32,700               | \$ 35,048         | \$ 20,816           |

(1) All commitments will be paid by the Company by 2027.

The following table summarizes the amortization expense and tax benefit recognized for Old National's qualified affordable housing projects and other tax credit investments for the three and nine months ended September 30, 2017 and 2016:

| Investment                             | Three Months Ended       |                    | Three Months Ended         |                    | Nine Months Ended        |                    | Nine Months Ended          |                    |
|--|--------------------------|--------------------|----------------------------|--------------------|--------------------------|--------------------|----------------------------|--------------------|
|  | September 30, 2017       | September 30, 2016 | September 30, 2017         | September 30, 2016 | September 30, 2017       | September 30, 2016 | September 30, 2017         | September 30, 2016 |
|  | Amortization Expense (1) |                    | Tax Benefit Recognized (1) |                    | Amortization Expense (1) |                    | Tax Benefit Recognized (1) |                    |
| LIHTC and other qualifying investments | \$ 940                   | \$ 201             | \$ (1,297)                 | \$ (281)           | \$ 2,822                 | \$ 603             | \$ (3,892)                 | \$ (843)           |
| FHTC                                   |                          |                    | (1,520)                    |                    |                          |                    | (4,559)                    |                    |
| CReED (2)                              |                          |                    | (303)                      |                    |                          |                    | (909)                      |                    |
| Total                                  | \$ 940                   | \$ 201             | \$ (3,120)                 | \$ (281)           | \$ 2,822                 | \$ 603             | \$ (9,360)                 | \$ (843)           |

(1) Tax credit investments are included in the Company's estimate of the effective annual tax rate.

(2) The CReED tax credit investment qualifies for an Indiana state tax credit.

**NOTE 13 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

Securities sold under agreements to repurchase are secured borrowings. The Company pledges investment securities to secure these borrowings. The following table presents securities sold under agreements to repurchase and related weighted-average interest rates at or for the nine months ended September 30:

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| (dollars in thousands)                      | 2017              | 2016       |
|---|-------------------|------------|
| Outstanding at September 30,                | <b>\$ 285,409</b> | \$ 347,804 |
| Average amount outstanding                  | <b>325,230</b>    | 373,474    |
| Maximum amount outstanding at any month-end | <b>351,897</b>    | 396,695    |
| Weighted average interest rate:             |                   |            |
| During the nine months ended September 30,  | <b>0.36%</b>      | 0.41%      |
| At September 30,                            | <b>0.34</b>       | 0.42       |

**Table of Contents**

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

| (dollars in thousands)              | At September 30, 2017                            |               |            |                      | Total             |
|-------------------------------------|--|---------------|------------|----------------------|-------------------|
|                                     | Remaining Contractual Maturity of the Agreements |               |            |                      |                   |
|                                     | Overnight and Continuous                         | Up to 30 Days | 30-90 Days | Greater Than 90 days |                   |
| Repurchase Agreements:              |  |               |            |                      |                   |
| U.S. Treasury and agency securities | \$ 260,409                                       | \$            | \$         | \$ 25,000            | \$ 285,409        |
| <b>Total</b>                        | <b>\$ 260,409</b>                                | <b>\$</b>     | <b>\$</b>  | <b>\$ 25,000</b>     | <b>\$ 285,409</b> |

The fair value of securities pledged to secure repurchase agreements may decline. The Company has pledged securities valued at 126% of the gross outstanding balance of repurchase agreements at September 30, 2017 to manage this risk.

**NOTE 14 FEDERAL HOME LOAN BANK ADVANCES**

The following table summarizes Old National Bank's FHLB advances at September 30, 2017 and December 31, 2016:

| (dollars in thousands)  | September 30, 2017  | December 31, 2016   |
|---|---------------------|---------------------|
| Federal Home Loan Bank advances (fixed rates 1.01% to 6.08% and variable rates 1.22% to 1.47%) maturing October 2017 to August 2027 | \$ 1,589,862        | \$ 1,353,225        |
| ASC 815 fair value hedge and other basis adjustments  | (495)               | (133)               |
| <b>Total other borrowings</b>   | <b>\$ 1,589,367</b> | <b>\$ 1,353,092</b> |

FHLB advances had weighted-average rates of 1.40% at September 30, 2017 and 0.94% at December 31, 2016. These borrowings are collateralized by investment securities and residential real estate loans up to 143% of outstanding debt.

Contractual maturities of FHLB advances at September 30, 2017 were as follows:

| (dollars in thousands)                               |            |
|--|------------|
| Due in 2017  | \$ 752,752 |
| Due in 2018  | 274,956    |
| Due in 2019  | 201,981    |
| Due in 2020  | 50,000     |
| Due in 2021  |            |
| Thereafter   | 310,173    |
| ASC 815 fair value hedge and other basis adjustments | (495)      |

|       |              |
|-------|--------------|
| Total | \$ 1,589,367 |
|-------|--------------|



**Table of Contents****NOTE 15 OTHER BORROWINGS**

The following table summarizes Old National and its subsidiaries' other borrowings at September 30, 2017 and December 31, 2016:

| (dollars in thousands)  | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| <b>Old National Bancorp:</b>  |                       |                      |
| Senior unsecured bank notes (fixed rate 4.125%)<br>maturing August 2024                                       | \$ 175,000            | \$ 175,000           |
| Unamortized debt issuance costs related to Senior<br>unsecured bank notes                                     | (1,066)               | (1,182)              |
| Junior subordinated debentures (variable rates of<br>2.68% to 3.07%) maturing March 2035 to<br>September 2037 | 45,000                | 45,000               |
| Other basis adjustments   | (3,597)               | (3,971)              |
| <b>Old National Bank:</b>   |                       |                      |
| Capital lease obligation  | 3,977                 | 4,092                |
| Total other borrowings  | \$ 219,314            | \$ 218,939           |

Contractual maturities of other borrowings at September 30, 2017 were as follows:

| (dollars in thousands)                                      |            |
|---|------------|
| Due in 2017   | \$ 19      |
| Due in 2018   | 141        |
| Due in 2019   | 85         |
| Due in 2020   | 91         |
| Due in 2021   | 99         |
| Thereafter  | 223,542    |
| Unamortized debt issuance costs and other basis adjustments | (4,663)    |
| Total   | \$ 219,314 |

**Senior Notes**

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

**Junior Subordinated Debentures**

Junior subordinated debentures related to trust preferred securities are classified in other borrowings. These securities qualify as Tier 1 capital for regulatory purposes, subject to certain limitations.

In 2007, Old National acquired St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust II. St. Joseph Capital Trust II issued \$5.0 million in preferred securities in March 2005. The preferred securities have a variable rate of interest priced at the three-month LIBOR plus 175 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust II.

In 2011, Old National acquired Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II in conjunction with its acquisition of Monroe Bancorp. Old National guarantees the payment of distributions on the trust preferred securities issued by Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II. Monroe

**Table of Contents**

Bancorp Capital Trust I issued \$3.0 million in preferred securities in July 2006. The preferred securities have a variable rate of interest priced at the three-month LIBOR plus 160 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Capital Trust I. Monroe Bancorp Statutory Trust II issued \$5.0 million in preferred securities in March 2007. The preferred securities have a variable rate of interest priced at the three-month LIBOR plus 160 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Statutory Trust II.

In 2012, Old National acquired Home Federal Statutory Trust I in conjunction with its acquisition of Indiana Community Bancorp. Old National guarantees the payment of distributions on the trust preferred securities issued by Home Federal Statutory Trust I. Home Federal Statutory Trust I issued \$15.0 million in preferred securities in September 2006. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 165 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Home Federal Statutory Trust I.

In 2014, Old National acquired Tower Capital Trust 2 and Tower Capital Trust 3 in conjunction with its acquisition of Tower Financial Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by Tower Capital Trust 2 and Tower Capital Trust 3. Tower Capital Trust 2 issued \$8.0 million in preferred securities in December 2005. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 134 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Tower Capital Trust 2. Tower Capital Trust 3 issued \$9.0 million in preferred securities in December 2006. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 169 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Tower Capital Trust 3.

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

**Capital Lease Obligation**

On January 1, 2004, Old National entered into a long-term capital lease obligation for a branch office building in Owensboro, Kentucky, which extends for 25 years with one renewal option for 10 years. The economic substance of this lease is that Old National is financing the acquisition of the building through the lease and accordingly, the building is recorded as an asset and the lease is recorded as a liability. The fair value of the capital lease obligation was estimated using a discounted cash flow analysis based on Old National's current incremental borrowing rate for similar types of borrowing arrangements.

On May 1, 2016, Old National acquired Anchor (WI), assuming a five year capital lease obligation for equipment.

At September 30, 2017, the future minimum lease payments under the capital lease arrangements were as follows:

|                        |        |
|------------------------|--------|
| (dollars in thousands) |        |
| 2017 remaining         | \$ 102 |
| 2018                   | 472    |
| 2019                   | 430    |

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|   |          |
|---|----------|
| 2020  | 430      |
| 2021  | 430      |
| Thereafter                                  | 7,977    |
| Total minimum lease payments                | 9,841    |
| Less amounts representing interest          | (5,864)  |
| Present value of net minimum lease payments | \$ 3,977 |

**Table of Contents****NOTE 16 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following table summarizes the changes within each classification of AOCI, net of tax, for the three and nine months ended September 30, 2017 and 2016:

| (dollars in thousands)                                     | Unrealized Gains<br>and Losses<br>on<br>Available-for-Sale<br>Securities | Unrealized Gains<br>and Losses<br>on<br>Held-to-Maturity<br>Securities | Gains<br>and<br>Losses on<br>Cash Flow<br>Hedges | Defined<br>Benefit<br>Pension<br>Plans | Total       |
|--|--|--|--|--|-------------|
| <b>Three Months Ended September 30, 2017</b>               |  |  |  |  |             |
| Balance at beginning of period                             | \$ (12,457)  | \$ (12,717)  | \$ (5,645)                                       | \$ (301)                               | \$ (31,120) |
| Other comprehensive income (loss) before reclassifications | (2,531)  |  | 134  |  | (2,397)     |
| Amounts reclassified from AOCI (a)                         | (1,883)  | 300  | 887  | 16                                     | (680)       |
| Net other comprehensive income (loss)                      | (4,414)  | 300  | 1,021  | 16                                     | (3,077)     |
| Balance at end of period                                   | \$ (16,871)  | \$ (12,417)  | \$ (4,624)                                       | \$ (285)                               | \$ (34,197) |
| <b>Three Months Ended September 30, 2016</b>               |  |  |  |  |             |
| Balance at beginning of period                             | \$ 13,783  | \$ (13,867)  | \$ (17,184)                                      | \$ (6,349)                             | \$ (23,617) |
| Other comprehensive income (loss) before reclassifications | 2,094  |  | 1,943  |  | 4,037       |
| Amounts reclassified from AOCI (a)                         | (1,006)  | 289  | 1,156  | 312                                    | 751         |
| Net other comprehensive income (loss)                      | 1,088  | 289  | 3,099  | 312                                    | 4,788       |
| Balance at end of period                                   | \$ 14,871  | \$ (13,578)  | \$ (14,085)                                      | \$ (6,037)                             | \$ (18,829) |
| <b>Nine Months Ended September 30, 2017</b>                |  |  |  |  |             |
| Balance at beginning of period                             | \$ (39,012)  | \$ (13,310)  | \$ (6,715)                                       | \$ (335)                               | \$ (59,372) |
| Other comprehensive income (loss) before reclassifications | 26,928   |  | (986)  |  | 25,942      |
| Amounts reclassified from AOCI (a)                         | (4,787)  | 893  | 3,077  | 50                                     | (767)       |
| Net other comprehensive income (loss)                      | 22,141   | 893  | 2,091  | 50                                     | 25,175      |
| Balance at end of period                                   | \$ (16,871)  | \$ (12,417)  | \$ (4,624)                                       | \$ (285)                               | \$ (34,197) |
| <b>Nine Months Ended September 30, 2016</b>                |  |  |  |  |             |
| Balance at beginning of period                             | \$ (3,806)   | \$ (14,480)  | \$ (9,276)                                       | \$ (7,235)                             | \$ (34,797) |
|  | 21,584   |  | (8,446)  |  | 13,138      |

|  |           |             |             |            |             |
|--|-----------|-------------|-------------|------------|-------------|
| Other comprehensive income (loss) before reclassifications |           |             |             |            |             |
| Amounts reclassified from AOCI (a)                         | (2,907)   | 902         | 3,637       | 1,198      | 2,830       |
| Net other comprehensive income (loss)                      | 18,677    | 902         | (4,809)     | 1,198      | 15,968      |
| Balance at end of period                                   | \$ 14,871 | \$ (13,578) | \$ (14,085) | \$ (6,037) | \$ (18,829) |

(a) See table below for details about reclassifications.

**Table of Contents**

The following table summarizes the significant amounts reclassified out of each component of AOCI for the three months ended September 30, 2017 and 2016:

| Details about AOCI Components                                   | Amount Reclassified<br>from AOCI<br>Three Months Ended<br>September 30, |            | Affected Line Item in the<br>Statement of Income |
|---|---|------------|--|
|   | 2017  | 2016       |  |
| (dollars in thousands)  |   |            |  |
| Unrealized gains and losses on<br>available-for-sale securities | \$ 2,972  | \$ 1,647   | Net securities gains                             |
|   | (1,089)   | (641)      | Income tax (expense) benefit                     |
|   | \$ 1,883  | \$ 1,006   | Net income                                       |
| Unrealized gains and losses on held-to-maturity<br>securities   | \$ (456)  | \$ (439)   | Interest income (expense)                        |
|   | 156   | 150        | Income tax (expense) benefit                     |
|   | \$ (300)  | \$ (289)   | Net income                                       |
| Gains and losses on cash flow hedges Interest<br>rate contracts | \$ (1,429)  | \$ (1,865) | Interest income (expense)                        |
|   | 542   | 709        | Income tax (expense) benefit                     |
|   | \$ (887)  | \$ (1,156) | Net income                                       |
| Amortization of defined benefit pension items                   |   |            |  |
| Actuarial gains (losses)  | \$ (27)   | \$ (503)   | Salaries and employee benefits                   |
|   | 11  | 191        | Income tax (expense) benefit                     |
|   | \$ (16)   | \$ (312)   | Net income                                       |
| Total reclassifications for the period                          | \$ 680  | \$ (751)   | Net income                                       |

**Table of Contents**

The following table summarizes the significant amounts reclassified out of each component of AOCI for the nine months ended September 30, 2017 and 2016:

| Details about AOCI Components  | Amount Reclassified<br>from AOCI   |            | Affected Line Item in the<br>Statement of Income |
|--|------------------------------------|------------|--|
|  | Nine Months Ended<br>September 30, |            |  |
| (dollars in thousands)   | 2017                               | 2016       |  |
| Unrealized gains and losses on available-for-sale securities           | \$ 7,547                           | \$ 4,609   | Net securities gains                             |
|  | (2,760)                            | (1,702)    | Income tax (expense) benefit                     |
|  | \$ 4,787                           | \$ 2,907   | Net income                                       |
| Unrealized gains and losses on held-to-maturity securities             | \$ (1,358)                         | \$ (1,370) | Interest income/(expense)                        |
|  | 465                                | 468        | Income tax (expense) benefit                     |
|  | \$ (893)                           | \$ (902)   | Net income                                       |
| Gains and losses on cash flow hedges Interest rate contracts           | \$ (4,962)                         | \$ (4,723) | Interest income/(expense)                        |
|  | 1,885                              | 1,086      | Income tax (expense) benefit                     |
|  | \$ (3,077)                         | \$ (3,637) | Net income                                       |
| Amortization of defined benefit pension items Actuarial gains/(losses) | \$ (81)                            | \$ (1,933) | Salaries and employee benefits                   |
|  | 31                                 | 735        | Income tax (expense) benefit                     |
|  | \$ (50)                            | \$ (1,198) | Net income                                       |
| Total reclassifications for the period                                 | \$ 767                             | \$ (2,830) | Net income                                       |



**Table of Contents**

**NOTE 17 EMPLOYEE BENEFIT PLANS**

**Retirement Plan**

Old National had a funded noncontributory defined benefit plan (the Retirement Plan ) that had been frozen since December 31, 2005. During the first quarter of 2016, the Company notified plan participants of its intent to terminate the Retirement Plan effective May 15, 2016. During October 2016, the Retirement Plan settled plan liabilities through either lump sum distributions to plan participants or annuity contracts purchased from a third-party insurance company that provided for the payment of vested benefits to those participants that did not elect the lump sum option. At September 30, 2017, there were no remaining plan assets.

**NOTE 18 STOCK-BASED COMPENSATION**

At September 30, 2017, Old National had 4.8 million shares remaining available for issuance under the Company's Amended and Restated 2008 Incentive Compensation Plan. The granting of awards to key employees is typically in the form of restricted stock awards or units.

**Restricted Stock Awards**

The Company granted 202 thousand time-based restricted stock awards to certain key officers during the nine months ended September 30, 2017, with shares vesting generally over a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. At September 30, 2017, unrecognized compensation expense was estimated to be \$4.5 million for unvested restricted stock awards. The cost is expected to be recognized over a weighted-average period of 2.1 years.

Old National recorded expense of \$1.4 million, net of tax, during the nine months ended September 30, 2017, compared to \$2.2 million, net of tax, during the nine months ended September 30, 2016 related to the vesting of restricted stock awards.

**Restricted Stock Units**

The Company granted 277 thousand shares of performance based restricted stock units to certain key officers during the nine months ended September 30, 2017, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets. For certain awards, the level of performance could increase or decrease the percentage of shares earned. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. At September 30, 2017, unrecognized compensation expense was estimated to be \$4.6 million. The cost is expected to be recognized over a weighted-average period of 1.9 years.

Old National recorded stock based compensation expense, net of tax, related to restricted stock units of \$2.5 million during the nine months ended September 30, 2017, compared to \$1.0 million during the nine months ended September 30, 2016.

**Stock Options**

Old National has not granted stock options since 2009. However, Old National did acquire stock options through prior year acquisitions. Old National did not record any stock based compensation expense related to these stock options

during the nine months ended September 30, 2017 or 2016.

### **Stock Appreciation Rights**

Old National has never granted stock appreciation rights. However, Old National did acquire stock appreciation rights through a prior year acquisition. Old National did not record any incremental expense associated with the conversion of these stock appreciation rights during the nine months ended September 30, 2017 or 2016. At September 30, 2017, 71 thousand stock appreciation rights remained outstanding.

**Table of Contents****NOTE 19 INCOME TAXES**

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

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2017 | September 30,<br>2016 | September 30,<br>2017 | September 30,<br>2016 |
| (dollars in thousands)                   |                       |                       |                       |                       |
| Provision at statutory rate of 35%       | \$ 17,791             | \$ 15,987             | \$ 51,363             | \$ 53,291             |
| Tax-exempt income                        | (4,290)               | (4,297)               | (13,036)              | (12,698)              |
| State income taxes                       | 506                   | 749                   | 1,553                 | 3,396                 |
| Interim period effective rate adjustment | (861)                 | (1,418)               | (1,602)               | (1,603)               |
| Tax credit investments federal           | (1,684)               | (80)                  | (5,431)               | (240)                 |
| ONI nondeductible goodwill               |                       | 23                    |                       | 8,328                 |
| Other, net                               | (3)                   | 5                     | (313)                 | 978                   |
| Income tax expense                       | \$ 11,459             | \$ 10,969             | \$ 32,534             | \$ 51,452             |
| Effective tax rate                       | 22.5%                 | 24.0%                 | 22.2%                 | 33.8%                 |

In accordance with ASC 740-270, *Accounting for Interim Reporting*, the provision for income taxes was recorded at September 30, 2017 and 2016 based on the current estimate of the effective annual rate.

Tax credit investments are included in the Company's estimate of the effective annual tax rate. The lower effective tax rate during the three and nine months ended September 30, 2017 when compared to the three and nine months ended September 30, 2016 is the result of an increase in federal tax credits available. The lower effective tax rate during the nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016 also reflected the sale of ONI in May 2016 and the associated tax expense of \$8.3 million to record a deferred tax liability relating to ONI's nondeductible goodwill.

**Unrecognized Tax Benefits**

The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. Unrecognized state income tax benefits are reported net of their related deferred federal income tax benefit.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

|  | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2017 | September 30,<br>2016 |
| (dollars in thousands)                                       |                       |                       |
| Balance at beginning of period                               | \$ 777                | \$ 124                |
| Additions based on tax positions related to the current year | 109                   | 85                    |
| Additions based on tax positions related to prior years      |                       | 584                   |

|   |        |        |
|---|--------|--------|
| Reductions due to statute of limitations expiring | (174)  | (2)    |
| Balance at end of period                          | \$ 712 | \$ 791 |

If recognized, approximately \$0.7 million of unrecognized tax benefits, net of interest, would favorably affect the effective income tax rate in future periods.

**Table of Contents****Net Deferred Tax Assets**

Significant components of net deferred tax assets (liabilities) were as follows at September 30, 2017 and December 31, 2016:

| (dollars in thousands)  | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| <b>Deferred Tax Assets</b>                                    |                       |                      |
| Allowance for loan losses, net of recapture                   | \$ 19,637             | \$ 19,773            |
| Benefit plan accruals   | 19,403                | 23,846               |
| Alternative minimum tax credit                                | 20,350                | 19,523               |
| Unrealized losses on benefit plans                            | 174                   | 205                  |
| Net operating loss carryforwards                              | 55,096                | 66,917               |
| Federal tax credits   | 35                    | 35                   |
| Other-than-temporary impairment                               | 2,168                 | 3,606                |
| Acquired loans  | 29,866                | 40,522               |
| Lease exit obligation   | 2,178                 | 2,060                |
| Unrealized losses on available-for-sale investment securities | 10,509                | 23,365               |
| Unrealized losses on held-to-maturity investment securities   | 6,653                 | 7,118                |
| Unrealized losses on hedges                                   | 2,835                 | 4,116                |
| Other real estate owned                                       | 1,829                 | 3,310                |
| Other, net  | 2,004                 | 2,675                |
| <br>Total deferred tax assets                                 | <br>172,737           | <br>217,071          |
| <b>Deferred Tax Liabilities</b>                               |                       |                      |
| Accretion on investment securities                            | (736)                 | (700)                |
| Purchase accounting   | (16,009)              | (17,552)             |
| Loan servicing rights   | (9,310)               | (9,627)              |
| Premises and equipment  | (3,725)               | (4,800)              |
| Other, net  | (5,006)               | (2,529)              |
| <br>Total deferred tax liabilities                            | <br>(34,786)          | <br>(35,208)         |
| <br>Net deferred tax assets                                   | <br>\$ 137,951        | <br>\$ 181,863       |

Through the acquisition of Anchor (WI) in the second quarter of 2016 and Lafayette Savings Bank in the fourth quarter of 2014, both former thrifts, Old National Bank's retained earnings at September 30, 2017 include base-year bad debt reserves, created for tax purposes prior to 1988, totaling \$52.8 million. Of this total, \$50.9 million was acquired from Anchor (WI), and \$1.9 million was acquired from Lafayette Savings Bank. Base-year reserves are subject to recapture in the unlikely event that Old National Bank (1) makes distributions in excess of current and accumulated earnings and profits, as calculated for federal income tax purposes, (2) redeems its stock, or (3) liquidates. Old National Bank has no intention of making such a nondividend distribution. Accordingly, under current accounting principles, a related deferred income tax liability of \$19.8 million has not been recognized. No

valuation allowance was recorded at September 30, 2017 or December 31, 2016 because, based on current expectations, Old National believes it will generate sufficient income in future years to realize deferred tax assets. Old National has federal net operating loss carryforwards totaling \$130.7 million at September 30, 2017 and \$162.9 million at December 31, 2016. This federal net operating loss was acquired from the acquisition of Anchor (WI) in 2016. If not used, the federal net operating loss carryforwards will begin to expire in 2028. Old National has alternative minimum tax credit carryforwards totaling \$20.3 million at September 30, 2017 and \$19.5 million at December 31, 2016. The alternative minimum tax credit carryforward does not expire. Old National has federal tax credit carryforwards of \$35 thousand at September 30, 2017 and December 31, 2016. The federal tax credits consist mainly of low income housing credits and research and development credits that, if not used, will expire from 2027 to 2037. Old National has state net operating loss carryforwards totaling \$192.2 million at September 30, 2017 and \$206.3 million at December 31, 2016. If not used, the state net operating loss carryforwards will expire from 2024 to 2037. Old National has state tax credits totaling \$0.6 million at September 30, 2017. The state tax credits will not expire.

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**Table of Contents****NOTE 20 DERIVATIVE FINANCIAL INSTRUMENTS**

As part of our overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps, and floors. The notional amount of these derivative instruments was \$760.0 million at September 30, 2017 and \$660.0 million at December 31, 2016. These derivative financial instruments at September 30, 2017 consisted of \$35.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances and \$725.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances. Derivative financial instruments at December 31, 2016 consisted of \$35.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances and \$625.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances. These hedges were entered into to manage interest rate risk. Derivative instruments are recognized on the balance sheet at their fair value and are not reported on a net basis.

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At September 30, 2017, the notional amount of the interest rate lock commitments was \$57.9 million and forward commitments were \$75.5 million. At December 31, 2016, the notional amount of the interest rate lock commitments was \$40.3 million and forward commitments were \$86.1 million. It is our practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from our commitment to fund the loans.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were \$801.2 million at September 30, 2017. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were \$582.7 million at December 31, 2016. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps and collars. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

Old National enters into derivative financial instruments as part of its foreign currency risk management strategies. These derivative instruments consist of foreign currency forward contracts to accommodate the business needs of its customers. Old National does not designate these foreign currency forward contracts for hedge accounting treatment. The notional amounts of these foreign currency forward contracts and the offsetting counterparty derivative instruments were \$0.7 million at September 30, 2017.

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

Amounts reported in AOCI related to cash flow hedges will be reclassified to interest income or interest expense as interest payments are received or paid on the Company's derivative instruments. During the next 12 months, the Company estimates that \$0.2 million will be reclassified to interest income and \$3.9 million will be reclassified to interest expense.





**Table of Contents**

On the balance sheet, asset derivatives are included in other assets, and liability derivatives are included in other liabilities. The following table summarizes the fair value of derivative financial instruments utilized by Old National:

| (dollars in thousands)   | September 30, 2017   |                          | December 31, 2016    |                          |
|--|----------------------|--------------------------|----------------------|--------------------------|
|  | Asset<br>Derivatives | Liability<br>Derivatives | Asset<br>Derivatives | Liability<br>Derivatives |
| <b>Derivatives designated as hedging instruments</b>           |                      |                          |                      |                          |
| Interest rate contracts  | \$ 2,962             | \$ 8,266                 | \$ 3,056             | \$ 11,582                |
| <b>Total derivatives designated as hedging instruments</b>     | <b>\$ 2,962</b>      | <b>\$ 8,266</b>          | <b>\$ 3,056</b>      | <b>\$ 11,582</b>         |
| <b>Derivatives not designated as hedging instruments</b>       |                      |                          |                      |                          |
| Interest rate contracts  | \$ 12,893            | \$ 9,096                 | \$ 11,903            | \$ 11,992                |
| Mortgage contracts   | 1,406                |                          | 2,742                |                          |
| Foreign currency contracts                                     | 6                    | 6                        |                      |                          |
| <b>Total derivatives not designated as hedging instruments</b> | <b>\$ 14,305</b>     | <b>\$ 9,102</b>          | <b>\$ 14,645</b>     | <b>\$ 11,992</b>         |
| <b>Total</b>   | <b>\$ 17,267</b>     | <b>\$ 17,368</b>         | <b>\$ 17,701</b>     | <b>\$ 23,574</b>         |

Beginning in 2017, the relevant agreements that allow us to access the central clearing organizations to clear derivative transactions were amended to characterize variation margin payments as settlements of the derivative contract rather than collateral against the exposures. Netting cash collateral exchanged with all central clearing organizations and applying variation margin payments as settlement of derivative transactions resulted in a reduction of net derivative assets on our balance sheet of \$2.5 million and a reduction of net derivative liabilities of \$6.3 million at September 30, 2017.

**Table of Contents**

The effect of derivative instruments on the consolidated statements of income for the three and nine months ended September 30, 2017 and 2016 are as follows:

| (dollars in thousands)      |                                   | <b>Three Months Ended<br/>September 30,</b> |                   |
|-----------------------------|-----------------------------------|---|-------------------|
|                             |                                   | <b>2017</b>                                 | <b>2016</b>       |
| <b>Derivatives in</b>       | <b>Location of Gain or (Loss)</b> | <b>Amount of Gain or (Loss)</b>             |                   |
| <b>Fair Value Hedging</b>   | <b>Recognized in Income on</b>    | <b>Recognized in Income on</b>              |                   |
| <b>Relationships</b>        | <b>Derivative</b>                 | <b>Derivative</b>                           |                   |
| Interest rate contracts (1) | Interest income / (expense)       | \$ (1,325)                                  | \$ (1,588)        |
| Interest rate contracts (2) | Other income / (expense)          | 33  | 36                |
| <b>Total</b>                |                                   | <b>\$ (1,292)</b>                           | <b>\$ (1,552)</b> |

|                             |                                   | <b>Amount of Gain or (Loss)</b> |              |
|-----------------------------|-----------------------------------|---------------------------------|--------------|
|                             |                                   | <b>Recognized in Income on</b>  |              |
| <b>Derivatives in</b>       | <b>Location of Gain or (Loss)</b> | <b>Recognized in Income on</b>  |              |
| <b>Cash Flow Hedging</b>    | <b>Recognized in Income on</b>    | <b>on</b>                       |              |
| <b>Relationships</b>        | <b>Derivative</b>                 | <b>Derivative</b>               |              |
| Interest rate contracts (1) | Interest income / (expense)       | \$ 81                           | \$ 81        |
| <b>Total</b>                |                                   | <b>\$ 81</b>                    | <b>\$ 81</b> |

|                                      |                                   | <b>Amount of Gain or (Loss)</b> |               |
|--------------------------------------|-----------------------------------|---------------------------------|---------------|
|                                      |                                   | <b>Recognized in Income on</b>  |               |
| <b>Derivatives Not Designated as</b> | <b>Location of Gain or (Loss)</b> | <b>Recognized in Income on</b>  |               |
| <b>Hedging Instruments</b>           | <b>Derivative</b>                 | <b>Derivative</b>               |               |
| Interest rate contracts (3)          | Other income / (expense)          | \$ 9                            | \$ 36         |
| Mortgage contracts                   | Mortgage banking revenue          | (293)                           | 256           |
| <b>Total</b>                         |                                   | <b>\$ (284)</b>                 | <b>\$ 292</b> |

|                           |                                   | <b>Nine Months Ended</b>        |             |
|---------------------------|-----------------------------------|---------------------------------|-------------|
|                           |                                   | <b>September 30,</b>            | <b>2016</b> |
| (dollars in thousands)    |                                   | <b>2017</b>                     | <b>2016</b> |
| <b>Derivatives in</b>     | <b>Location of Gain or (Loss)</b> | <b>Amount of Gain or (Loss)</b> |             |
| <b>Fair Value Hedging</b> | <b>Recognized in Income on</b>    | <b>(Loss)</b>                   |             |

| <b>Relationships</b>        | <b>Derivative</b>           | <b>Recognized in Income on</b> |                   |
|-----------------------------|-----------------------------|--------------------------------|-------------------|
|                             |                             | <b>Derivative</b>              |                   |
| Interest rate contracts (1) | Interest income / (expense) | \$ (4,610)                     | \$ (3,941)        |
| Interest rate contracts (2) | Other income / (expense)    | 107                            | 137               |
| <b>Total</b>                |                             | <b>\$ (4,503)</b>              | <b>\$ (3,804)</b> |

| <b>Derivatives in</b>       | <b>Location of Gain or (Loss)</b> | <b>Amount of Gain or (Loss)</b> |               |
|-----------------------------|-----------------------------------|---------------------------------|---------------|
| <b>Cash Flow Hedging</b>    | <b>Recognized in Income on</b>    | <b>Recognized in Income on</b>  |               |
| <b>Relationships</b>        | <b>Derivative</b>                 | <b>Derivative</b>               |               |
| Interest rate contracts (1) | Interest income / (expense)       | \$ 243                          | \$ 248        |
| <b>Total</b>                |                                   | <b>\$ 243</b>                   | <b>\$ 248</b> |

| <b>Derivatives Not Designated</b> | <b>Location of Gain or (Loss)</b> | <b>Amount of Gain or (Loss)</b> |               |
|-----------------------------------|-----------------------------------|---------------------------------|---------------|
| <b>as Hedging Instruments</b>     | <b>Recognized in Income on</b>    | <b>Recognized in Income on</b>  |               |
| <b>Relationships</b>              | <b>Derivative</b>                 | <b>Derivative</b>               |               |
| Interest rate contracts (3)       | Other income / (expense)          | \$ 45                           | \$ (48)       |
| Mortgage contracts                | Mortgage banking revenue          | (1,336)                         | 682           |
| Foreign currency contracts        | Other income                      | (13)                            |               |
| <b>Total</b>                      |                                   | <b>\$ (1,304)</b>               | <b>\$ 634</b> |

- (1) Amounts represent the net interest payments as stated in the contractual agreements.  
(2) Amounts represent ineffectiveness on derivatives designated as fair value hedges.  
(3) Includes the valuation differences between the customer and offsetting counterparty swaps.

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**Table of Contents****NOTE 21 COMMITMENTS AND CONTINGENCIES****Litigation**

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

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

Old National is not currently involved in any material litigation.

**Credit-Related Financial Instruments**

In the normal course of business, Old National's banking affiliates have entered into various agreements to extend credit, including loan commitments of \$2.430 billion and standby letters of credit of \$50.2 million at September 30, 2017. At September 30, 2017, approximately \$2.288 billion of the loan commitments had fixed rates and \$141.6 million had floating rates, with the floating interest rates ranging from 0% to 25%. At December 31, 2016, loan commitments totaled \$2.354 billion and standby letters of credit totaled \$51.7 million. These commitments are not reflected in the consolidated financial statements. The allowance for unfunded loan commitments totaled \$3.0 million at September 30, 2017 and \$3.2 million at December 31, 2016.

Old National had credit extensions with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients totaling \$13.3 million at September 30, 2017 and December 31, 2016. Old National provided collateral to the unaffiliated banks to secure credit extensions totaling \$12.4 million at September 30, 2017 and \$12.6 million at December 31, 2016. Old National did not provide collateral for the remaining credit extensions.

**NOTE 22 FINANCIAL GUARANTEES**

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At September 30, 2017, the notional amount of standby letters of credit was \$50.2 million, which represented the maximum amount of future funding requirements, and the carrying value was \$0.3 million. At

December 31, 2016, the notional amount of standby letters of credit was \$51.7 million, which represented the maximum amount of future funding requirements, and the carrying value was \$0.3 million.

Old National is a party in three separate risk participation transactions of interest rate swaps, which had total notional amount of \$19.2 million at September 30, 2017.

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**Table of Contents****NOTE 23 SEGMENT INFORMATION**

During the second quarter of 2016, Old National sold its insurance operations, ONI. During the year ended December 31, 2015, the insurance segment's net income was \$2.1 million and its assets totaled \$61.8 million at December 31, 2015. In conjunction with the divestiture, Old National re-evaluated its business segments.

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

**NOTE 24 FAIR VALUE**

FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

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

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

**Table of Contents**

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

| (dollars in thousands)  | Fair Value Measurements at September 30, 2017 Using |  |   |   |
|---|---|--|---|---|
|   | Carrying Value                                      | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Financial Assets</b>   |   |  |   |   |
| Trading securities  | \$ 5,351  | \$ 5,351   | \$  | \$  |
| Investment securities available-for-sale:                           |   |  |   |   |
| U.S. Treasury   | 5,615   | 5,615  |   |   |
| U.S. government-sponsored entities and agencies                     | 576,436   |  | 576,436                                       |   |
| Mortgage-backed securities Agency States and political subdivisions | 1,450,736   |  | 1,450,736                                     |   |
|   | 414,673   |  | 414,673                                       |   |
| Pooled trust preferred securities                                   | 8,270   |  |   | 8,270                                     |
| Other securities  | 320,107   | 31,374   | 288,733                                       |   |
| Residential loans held for sale                                     | 30,221  |  | 30,221  |   |
| Derivative assets   | 17,267  |  | 17,267  |   |
| <b>Financial Liabilities</b>  |   |  |   |   |
| Derivative liabilities  | 17,368  |  | 17,368  |   |

| (dollars in thousands)  | Fair Value Measurements at December 31, 2016 Using |  |   |   |
|---|--|--|---|---|
|   | Carrying Value                                     | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Financial Assets</b>   |  |  |   |   |
| Trading securities  | \$ 4,982   | \$ 4,982   | \$  | \$  |
| Investment securities available-for-sale:                           |  |  |   |   |
| U.S. Treasury   | 7,103  | 7,103  |   |   |
| U.S. government-sponsored entities and agencies                     | 493,956  |  | 493,956                                       |   |
| Mortgage-backed securities Agency States and political subdivisions | 1,525,019  |  | 1,525,019                                     |   |
|   | 436,684  |  | 436,684                                       |   |
| Pooled trust preferred securities                                   | 8,119  |  |   | 8,119                                     |
| Other securities  | 326,293  | 30,905   | 295,388                                       |   |



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|                                 |        |        |
|---------------------------------|--------|--------|
| Residential loans held for sale | 90,682 | 90,682 |
| Derivative assets               | 17,701 | 17,701 |
| <b>Financial Liabilities</b>    |        |        |
| Derivative liabilities          | 23,574 | 23,574 |

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| (dollars in thousands)                          | Nine Months<br>Ended<br>September 30, |          |
|---|---------------------------------------|----------|
|   | 2017                                  | 2016     |
| Balance at beginning of period                  | \$ 8,119                              | \$ 7,900 |
| Accretion of discount                           | 13                                    | 14       |
| Sales/payments received                         | (373)                                 | (327)    |
| Increase (decrease) in fair value of securities | 511                                   | (813)    |
| Balance at end of period                        | \$ 8,270                              | \$ 6,774 |

**Table of Contents**

The accretion of discounts on securities in the table above is included in interest income. The increase in fair value for the nine months ended September 30, 2017 is reflected in the balance sheet as an increase in the fair value of investment securities available-for-sale, an increase in accumulated other comprehensive income, which is included in shareholders' equity, and a decrease in other assets related to the tax impact. The decrease in fair value for the nine months ended September 30, 2016 is reflected in the balance sheet as a decrease in the fair value of investment securities available-for-sale, a decrease in accumulated other comprehensive income, which is included in shareholders' equity, and an increase in other assets related to the tax impact.

The table below provides quantitative information about significant unobservable inputs used in fair value measurements within Level 3 of the fair value hierarchy at September 30, 2017 and December 31, 2016:

| (dollars in thousands)            | Fair Value | Valuation            |                               | Range (Weighted Average) |              |
|-----------------------------------|------------|----------------------|-------------------------------|--------------------------|--------------|
|                                   |            | Techniques           | Unobservable Input            |                          |              |
| <b>September 30, 2017</b>         |            |                      |                               |                          |              |
| Pooled trust preferred securities | \$ 8,270   | Discounted cash flow | Constant prepayment rate (a)  | 0.00%                    |              |
|                                   |            |                      | Additional asset defaults (b) | 3.1%                     | 4.4% (4.0%)  |
|                                   |            |                      | Expected asset recoveries (c) | 0.0%                     | 4.1% (0.6%)  |
| <b>December 31, 2016</b>          |            |                      |                               |                          |              |
| Pooled trust preferred securities | \$ 8,119   | Discounted cash flow | Constant prepayment rate (a)  | 0.00%                    |              |
|                                   |            |                      | Additional asset defaults (b) | 4.5%                     | 10.0% (7.9%) |
|                                   |            |                      | Expected asset recoveries (c) | 0.0%                     | 6.1% (0.9%)  |

- (a) Assuming no prepayments.  
 (b) Each currently performing pool asset is assigned a default probability based on the banking environment, which is adjusted for specific issuer evaluation, of 0%, 50%, or 100%.  
 (c) Each currently defaulted pool asset is assigned a recovery probability based on specific issuer evaluation of 0%, 25%, or 100%.

Significant changes in any of the unobservable inputs used in the fair value measurement in isolation would result in a significant change to the fair value measurement. The pooled trust preferred securities Old National owns are subordinate note classes that rely on an ongoing cash flow stream to support their values. The senior note classes receive the benefit of prepayments to the detriment of subordinate note classes since the ongoing interest cash flow stream is reduced by the early redemption. Generally, a change in prepayment rates or additional pool asset defaults has an impact that is directionally opposite from a change in the expected recovery of a defaulted pool asset.

Assets measured at fair value on a non-recurring basis at September 30, 2017 are summarized below:

| (dollars in thousands) | Fair Value Measurements at September 30, 2017 Using |   |                                 |
|------------------------|---|---|---------------------------------|
|                        | Carrying Amount                                     | Quoted Prices in Active Markets for Identical Instruments | Significant Unobservable Inputs |
|                        |   |   |                                 |

|   | Identical Assets<br>(Level 1) | Observable<br>Inputs<br>(Level 2) | Inputs<br>(Level 3) |
|---|-------------------------------|-----------------------------------|---------------------|
| <b>Collateral Dependent Impaired Loans:</b> |                               |                                   |                     |
| Commercial loans                            | \$ 3,438                      | \$                                | \$ 3,438            |
| Commercial real estate loans                | 29,464                        |                                   | 29,464              |
| <b>Foreclosed Assets:</b>                   |                               |                                   |                     |
| Commercial real estate                      | 56                            |                                   | 56                  |
| Loan servicing rights                       | 2,719                         | 2,719                             |                     |

Impaired commercial and commercial real estate loans that are deemed collateral dependent are valued based on the fair value of the underlying collateral. These estimates are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property, and other related factors to estimate the current value of the collateral. These impaired commercial and commercial real estate loans had a principal amount of \$43.9 million, with a valuation allowance of \$11.0 million at September 30, 2017. Old National recorded provision recapture associated with these loans totaling \$0.8 million for the three months ended September 30, 2017 and provision expense of \$5.4 million for the nine months ended September 30, 2017.

**Table of Contents**

Old National recorded provision expense associated with impaired commercial and commercial real estate loans that were deemed collateral dependent totaling \$0.1 million for the three months ended September 30, 2016 and \$1.8 million for the nine months ended September 30, 2016.

Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of \$56 thousand at September 30, 2017. The estimates of fair value are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property, and other related factors to estimate the current value of the collateral. There were write-downs of other real estate owned of \$0.3 million for the three months ended September 30, 2017 and \$2.0 million for the nine months ended September 30, 2017. There were write-downs of other real estate owned of \$0.4 million for the three months ended September 30, 2016 and \$2.5 million for the nine months ended September 30, 2016.

Loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded on that tranche so that the servicing asset is carried at fair value. Fair value is determined at a tranche level, based on market prices for comparable mortgage servicing contracts when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes a discount rate, weighted average prepayment speed, and other economic factors that market participants would use in estimating future net servicing income and that can be validated against available market data (Level 2). The valuation allowance for loan servicing rights with impairments at September 30, 2017 totaled \$54 thousand. Old National recorded recoveries associated with these loan servicing rights totaling \$20 thousand for the three months ended September 30, 2017 and \$14 thousand for the nine months ended September 30, 2017. There were impairments on loan servicing rights of \$4 thousand for the three months ended September 30, 2016 and recoveries of loan servicing rights totaling \$24 thousand for the nine months ended September 30, 2016.

Assets measured at fair value on a non-recurring basis at December 31, 2016 are summarized below:

|   | Fair Value Measurements at<br>December 31, 2016 Using |   |  |  |
|---|---|---|--|--|
|   | Carrying<br>Value                                     | Quoted Prices<br>Active Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (dollars in thousands)                      |   |   |  |  |
| <b>Collateral Dependent Impaired Loans:</b> |   |   |  |  |
| Commercial loans                            | \$ 6,771  | \$  | \$   | \$ 6,771   |
| Commercial real estate loans                | 11,632  |   |  | 11,632   |
| <b>Foreclosed Assets:</b>                   |   |   |  |  |
| Commercial real estate                      | 1,352   |   |  | 1,352  |
| Residential                                 | 394   |   |  | 394  |
| Loan servicing rights                       | 2,181   |   | 2,181  |  |

At December 31, 2016, impaired commercial and commercial real estate loans had a principal amount of \$26.4 million, with a valuation allowance of \$8.0 million.

Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of \$1.7 million at December 31, 2016.

The valuation allowance for loan servicing rights with impairments at December 31, 2016 totaled \$68 thousand.

**Table of Contents**

The table below provides quantitative information about significant unobservable inputs used in fair value measurements within Level 3 of the fair value hierarchy:

| (dollars in thousands)  | Fair Value | Valuation Techniques     | Unobservable Input  | Range (Weighted Average) |
|---|------------|--------------------------|---|--------------------------|
| <b>September 30, 2017</b>   |            |                          |   |                          |
| <b>Collateral Dependent Impaired Loans</b>  |            |                          |   |                          |
| Commercial loans  | \$ 3,438   | Fair value of collateral | Discount for type of property, age of appraisal, and current status | 20% 88% (51%)            |
| Commercial real estate loans  | 29,464     | Fair value of collateral | Discount for type of property, age of appraisal and current status  | 10% 50% (27%)            |
| <b>Foreclosed Assets</b>  |            |                          |   |                          |
| Commercial real estate (1)  | 56         | Fair value of collateral | Discount for type of property, age of appraisal, and current status | 83%                      |
| (1) There was only one foreclosed commercial real estate asset at September 30, 2017, so no range or weighted average rate is reported. |            |                          |   |                          |
| <b>December 31, 2016</b>  |            |                          |   |                          |
| <b>Collateral Dependent Impaired Loans</b>  |            |                          |   |                          |
| Commercial loans  | \$ 6,771   | Fair value of collateral | Discount for type of property, age of appraisal, and current status | 0% 99% (53%)             |
| Commercial real estate loans  | 11,632     | Fair value of collateral | Discount for type of property, age of appraisal, and current status | 10% 67% (36%)            |
| <b>Foreclosed Assets</b>  |            |                          |   |                          |
| Commercial real estate  | 1,352      | Fair value of collateral | Discount for type of property, age of appraisal, and current status | 4% 80% (39%)             |
| Residential   | 394        | Fair value of collateral | Discount for type of property, age of appraisal, and current status | 7% 60% (30%)             |

**Financial instruments recorded using fair value option**

Under FASB ASC 825-10, we may elect to report most financial instruments and certain other items at fair value on an instrument-by instrument basis with changes in fair value reported in net income. After the initial adoption, the election is made at the acquisition of an eligible financial asset, financial liability or firm commitment or when certain specified reconsideration events occur. The fair value election may not be revoked once an election is made.

We have elected the fair value option for residential loans held for sale. For these loans, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on the financial assets (except any that are on nonaccrual status). None of these loans are 90 days or more past due, nor are any on nonaccrual status. Included in the income statement is interest income for loans held for sale totaling \$56 thousand for the three months ended September 30, 2017 and \$125 thousand for the nine months ended September 30, 2017. Included in the income statement is interest income for loans held for sale totaling \$35 thousand for the three months ended September 30, 2016 and \$84 thousand for the nine months ended September 30, 2016.

Residential loans held for sale

Old National has elected the fair value option for newly originated conforming fixed-rate and adjustable-rate first mortgage loans held for sale. These loans are intended for sale and are hedged with derivative instruments. Old National has elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification. The fair value option was not elected for loans held for investment.

**Table of Contents**

The difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected at September 30, 2017 and December 31, 2016 was as follows:

| (dollars in thousands)          | Aggregate<br>Fair Value | Difference | Contractual<br>Principal |
|---------------------------------|-------------------------|------------|--------------------------|
| <b>September 30, 2017</b>       |                         |            |                          |
| Residential loans held for sale | \$ 30,221               | \$ 890     | \$ 29,331                |
| <b>December 31, 2016</b>        |                         |            |                          |
| Residential loans held for sale | \$ 90,682               | \$ 133     | \$ 90,549                |

Accrued interest at period end is included in the fair value of the instruments.

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets carried at fair value:

| (dollars in thousands)                       | Other<br>Gains and<br>(Losses) | Interest<br>Income | Interest<br>(Expense) | Total Changes<br>in Fair<br>Values<br>Included in<br>Current Period<br>Earnings |
|--|--------------------------------|--------------------|-----------------------|---|
| <b>Three months ended September 30, 2017</b> |                                |                    |                       |   |
| Residential loans held for sale              | \$ 58                          | \$                 | \$                    | \$ 58   |
| <b>Three months ended September 30, 2016</b> |                                |                    |                       |   |
| Residential loans held for sale              | \$ 234                         | \$ 4               | \$                    | \$ 238  |
| <b>Nine months ended September 30, 2017</b>  |                                |                    |                       |   |
| Residential loans held for sale              | \$ 755                         | \$ 2               | \$                    | \$ 757  |
| <b>Nine months ended September 30, 2016</b>  |                                |                    |                       |   |
| Residential loans held for sale              | \$ 1,451                       | \$ 4               | \$                    | \$ 1,455  |



**Table of Contents**

The carrying amounts and estimated fair values of financial instruments, not previously presented in this note, at September 30, 2017 and December 31, 2016 were as follows:

|  | Fair Value Measurements at<br>September 30, 2017 Using |  |   |  |
|--|--|--|---|--|
|  | Carrying<br>Value                                      | Quoted Prices in<br>Active Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (dollars in thousands)   |  |  |   |  |
| <b>Financial Assets</b>  |  |  |   |  |
| Cash, due from banks, federal funds sold, and money market investments | \$ 252,367   | \$ 252,367   | \$  | \$   |
| Investment securities held-to-maturity:                                |  |  |   |  |
| Mortgage-backed securities Agency                                      | 7,649  |  | 7,903   |  |
| State and political subdivisions                                       | 681,302  |  | 732,661   |  |
| Federal Home Loan Bank/Federal Reserve Bank stock                      | 117,354  | N/A  | N/A   | N/A  |
| Loans, net:  |  |  |   |  |
| Commercial   | 2,028,527  |  |   | 2,110,928  |
| Commercial real estate   | 3,350,186  |  |   | 3,639,565  |
| Residential real estate  | 2,117,211  |  |   | 2,236,000  |
| Consumer credit  | 1,852,031  |  |   | 1,969,384  |
| Accrued interest receivable  | 75,342   | 47   | 18,759  | 56,536   |
| <b>Financial Liabilities</b>   |  |  |   |  |
| Deposits:  |  |  |   |  |
| Noninterest-bearing demand deposits                                    | \$ 3,034,696   | \$ 3,034,696   | \$  | \$   |
| NOW, savings, and money market deposits                                | 6,120,099  | 6,120,099  |   |  |
| Time deposits  | 1,451,989  |  | 1,443,473   |  |
| Federal funds purchased and interbank borrowings                       |  |  |   |  |
| Securities sold under agreements to repurchase                         | 317,021  | 317,021  |   |  |
| Federal Home Loan Bank advances  | 285,409  | 260,409  | 25,209  |  |
| Other borrowings   | 1,589,367  |  |   | 1,593,997  |
| Accrued interest payable   | 219,314  |  | 221,739   |  |
| Standby letters of credit  | 4,364  |  | 4,364   |  |
|  | 334  |  |   | 334  |
| <b>Off-Balance Sheet Financial Instruments</b>                         |  |  |   |  |
| Commitments to extend credit   | \$   | \$   | \$  | \$ 3,067   |

N/A = not applicable

**Table of Contents**

|  | <b>Fair Value Measurements at<br/>December 31, 2016 Using</b> |   |  |  |
|--|---|---|--|--|
|  | <b>Carrying<br/>Value</b>                                     | <b>Quoted Prices in<br/>Active Markets for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| (dollars in thousands)   |   |   |  |  |
| <b>Financial Assets</b>  |   |   |  |  |
| Cash, due from banks, federal funds sold, and money market investments | \$ 255,519  | \$ 255,519  | \$   | \$   |
| Investment securities held-to-maturity:                                |   |   |  |  |
| U.S. government-sponsored entities and agencies                        | 40,131  |   | 40,558   |  |
| Mortgage-backed securities Agency                                      | 10,640  |   | 10,940   |  |
| State and political subdivisions                                       | 694,319   |   | 732,674  |  |
| Federal Home Loan Bank/Federal Reserve Bank stock                      | 101,716   | N/A   | N/A  | N/A  |
| Loans, net:  |   |   |  |  |
| Commercial   | 1,895,618   |   |  | 1,971,296  |
| Commercial real estate   | 3,112,680   |   |  | 3,400,365  |
| Residential real estate  | 2,085,887   |   |  | 2,228,542  |
| Consumer credit  | 1,866,519   |   |  | 1,974,180  |
| Accrued interest receivable  | 81,381  | 16  | 22,880   | 58,485   |
| <b>Financial Liabilities</b>   |   |   |  |  |
| Deposits:  |   |   |  |  |
| Noninterest-bearing demand deposits                                    | \$ 3,016,093  | \$ 3,016,093  | \$   | \$   |
| NOW, savings, and money market deposits                                | 6,259,052   | 6,259,052   |  |  |
| Time deposits  | 1,468,108   |   | 1,460,778  |  |
| Federal funds purchased and interbank borrowings                       | 213,003   | 213,003   |  |  |
| Securities sold under agreements to repurchase                         | 367,052   | 317,052   | 50,612   |  |
| Federal Home Loan Bank advances  | 1,353,092   |   |  | 1,360,599  |
| Other borrowings   | 218,939   |   | 217,647  |  |
| Accrued interest payable   | 5,979   |   | 5,979  |  |
| Standby letters of credit  | 315   |   |  | 315  |
| <b>Off-Balance Sheet Financial Instruments</b>                         |   |   |  |  |
| Commitments to extend credit   | \$  | \$  | \$   | \$ 2,527   |

N/A = not applicable

The following methods and assumptions were used to estimate the fair value of each type of financial instrument.

Cash, due from banks, federal funds sold, and money market investments: For these instruments, the carrying amounts approximate fair value (Level 1).

Investment securities: Fair values for investment securities held-to-maturity are based on quoted market prices, if available. For securities where quoted prices are not available, fair values are estimated based on market prices of

similar securities (Level 2).

Federal Home Loan Bank and Federal Reserve Bank stock: Old National Bank is a member of the FHLB and the Federal Reserve System. The carrying value is our basis because it is not practical to determine the fair value due to restrictions placed on transferability.

Loans: The fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities (Level 3). The method utilized to estimate the fair value of loans does not necessarily represent an exit price.

**Table of Contents**

Accrued interest receivable and payable: The carrying amount approximates fair value and is aligned with the underlying assets or liabilities (Level 1, Level 2, or Level 3).

Deposits: The fair value of noninterest-bearing demand deposits and savings, NOW, and money market deposits is the amount payable as of the reporting date (Level 1). The fair value of fixed-maturity certificates of deposit is estimated using rates currently offered for deposits with similar remaining maturities (Level 2).

Federal funds purchased and interbank borrowings: Federal funds purchased and interbank borrowings generally have an original term to maturity of 30 days or less and, therefore, their carrying amount is a reasonable estimate of fair value (Level 1).

Securities sold under agreements to repurchase: The fair value of securities sold under agreements to repurchase is determined using end of day market prices (Level 1 or Level 2).

Federal Home Loan Bank advances: The fair value of FHLB advances is determined using calculated prices for new FHLB advances with similar risk characteristics (Level 3).

Other borrowings: The fair value of medium-term notes, subordinated debt, and senior bank notes is determined using market quotes (Level 2). The fair value of other debt is determined using comparable security market prices or dealer quotes (Level 2).

Standby letters of credit: Fair values for standby letters of credit are based on fees currently charged to enter into similar agreements. The fair value for standby letters of credit was recorded in Accrued expenses and other liabilities on the consolidated balance sheet in accordance with FASB ASC 460-10 (FIN 45) (Level 3).

Off-balance sheet financial instruments: Fair values for off-balance sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements (Level 3). For further information regarding the amounts of these financial instruments, see Notes 21 and 22.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following table sets forth certain financial highlights of Old National:

| (dollars and shares in thousands,<br>except per share data) | Three Months Ended    |                  |                       | Nine Months Ended     |                       |
|---|-----------------------|------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2017 | June 30,<br>2017 | September 30,<br>2016 | September 30,<br>2017 | September 30,<br>2016 |
| <b>Income Statement:</b>                                    |                       |                  |                       |                       |                       |
| Net interest income   | \$ 108,478            | \$ 104,333       | \$ 107,803            | \$ 318,612            | \$ 292,786            |
| Taxable equivalent adjustment (1)                           | 5,621                 | 5,643            | 5,320                 | 16,952                | 15,787                |
| Provision for loan losses                                   | 311                   | 1,355            | 1,306                 | 2,013                 | 2,716                 |
| Noninterest income  | 46,366                | 49,271           | 47,243                | 138,557               | 190,079               |
| Noninterest expense   | 103,702               | 102,811          | 108,062               | 308,404               | 327,889               |
| Net income  | 39,372                | 38,854           | 34,709                | 114,218               | 100,808               |
| <b>Common Share Data:</b>                                   |                       |                  |                       |                       |                       |
| Weighted average diluted shares                             | 135,796               | 135,697          | 135,011               | 135,693               | 125,839               |
| Net income (diluted)  | \$ 0.29               | \$ 0.28          | \$ 0.25               | \$ 0.84               | \$ 0.80               |
| Cash dividends  | 0.13                  | 0.13             | 0.13                  | 0.39                  | 0.39                  |
| Common dividend payout ratio (2)                            | 44.83%                | 46.43%           | 52.00%                | 46.43%                | 48.75%                |
| Book value  | \$ 14.07              | \$ 13.92         | \$ 13.59              | \$ 14.07              | \$ 13.59              |
| Stock price   | 18.30                 | 17.25            | 14.06                 | 18.30                 | 14.06                 |
| Tangible common book value (3)                              | 9.02                  | 8.85             | 8.43                  | 9.02                  | 8.43                  |
| <b>Performance Ratios:</b>                                  |                       |                  |                       |                       |                       |
| Return on average assets                                    | 1.05%                 | 1.05%            | 0.96%                 | 1.02%                 | 1.01%                 |
| Return on average common equity                             | 8.31                  | 8.33             | 7.62                  | 8.18                  | 8.03                  |
| Net interest margin (4)                                     | 3.52                  | 3.42             | 3.60                  | 3.48                  | 3.56                  |
| Efficiency ratio (5)  | 64.17                 | 64.05            | 66.05                 | 64.29                 | 64.50                 |
| Net charge-offs (recoveries) to average loans               | 0.05                  | 0.01             | 0.07                  | 0.02                  | 0.06                  |
| Allowance for loan losses to ending loans                   | 0.53                  | 0.55             | 0.58                  | 0.53                  | 0.58                  |
| Non-performing loans to ending loans                        | 1.46                  | 1.51             | 1.86                  | 1.46                  | 1.86                  |
| <b>Balance Sheet:</b>                                       |                       |                  |                       |                       |                       |
| Total loans   | \$ 9,398,124          | \$ 9,232,040     | \$ 8,904,985          | \$ 9,398,124          | \$ 8,904,985          |
| Total assets  | 15,065,800            | 14,957,281       | 14,703,071            | 15,065,800            | 14,703,071            |
| Total deposits  | 10,606,784            | 10,683,714       | 10,646,708            | 10,606,784            | 10,646,708            |
| Total borrowed funds  | 2,411,111             | 2,259,918        | 2,023,099             | 2,411,111             | 2,023,099             |

|                                |                  |           |           |                  |           |
|--------------------------------|------------------|-----------|-----------|------------------|-----------|
| Total shareholders equity      | <b>1,906,823</b> | 1,886,594 | 1,834,457 | <b>1,906,823</b> | 1,834,457 |
| <b>Nonfinancial Data:</b>      |                  |           |           |                  |           |
| Full-time equivalent employees | <b>2,592</b>     | 2,652     | 2,910     | <b>2,592</b>     | 2,910     |
| Banking centers                | <b>188</b>       | 188       | 201       | <b>188</b>       | 201       |

- (1) Calculated using the federal statutory tax rate in effect of 35% for all periods.
- (2) Cash dividends divided by net income.
- (3) Tangible common book value is defined as tangible equity (shareholders equity excluding goodwill and other intangible assets) divided by common shares issued and outstanding. This is a non-GAAP financial measure that management believes to be helpful in understanding the financial results of the Company.
- (4) Net interest margin is defined as net interest income on a tax equivalent basis as a percentage of average earning assets.
- (5) Efficiency ratio is defined as noninterest expense before amortization of intangibles as a percentage of fully taxable net interest income and noninterest income, excluding net gains from securities transactions. This presentation excludes intangible amortization and net securities gains, as is common in other company disclosures, and better aligns with true operating performance. This is a non-GAAP financial measure that management believes to be helpful in understanding the financial results of the Company.

## **Table of Contents**

The following discussion is an analysis of our results of operations for the three and nine months ended September 30, 2017 and 2016, and financial condition as of September 30, 2017, compared to September 30, 2016 and December 31, 2016. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business that are based on estimates and involves certain risks and uncertainties. Therefore, future results could differ significantly from our current expectations and the related forward-looking statements.

### **EXECUTIVE SUMMARY**

During the third quarter of 2017, net income was \$39.4 million, or \$0.29 per diluted share. Net income was \$34.7 million, or \$0.25 per diluted share, for the third quarter of 2016.

Management's primary focus remains basic banking loan growth, fee income, and expense management. This is accomplished by executing our plan of revenue growth driven by strong commercial and retail loan growth, anchored by excellent credit, funded by low-cost core deposits and continued emphasis on becoming more efficient.

**Loan Growth:** Our loan balances, excluding loans held for sale, grew \$166.1 million to \$9.398 billion at September 30, 2017 compared to \$9.232 billion at June 30, 2017. This growth was attributable to our commercial loan portfolios, as we continue to focus on steady organic loan growth anchored by strong credit performance. Commercial loan demand continues to be steady as we continue our strategy of building new relationships throughout our entire footprint.

**Fee Income:** Revenue growth in our fee income components was driven by our capital markets income, investment product, and wealth management areas as they increased for the nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016. The majority of our recurring fee income components increased year over year, reflective of the investments we have made over the past few years; however, these increases were offset by a \$19.9 million decrease in insurance premiums and commissions and a \$41.9 million gain on the sale of ONI during the nine months ended September 30, 2016.

**Expenses:** Noninterest expenses remained well controlled, decreasing \$19.5 million, or 6%, for the nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016. The decrease was primarily attributable to the divestiture of ONI, which occurred in May 2016 as well as the acquisition and integration costs associated with the Anchor (WI) acquisition during the first nine months of 2016. We continue to focus our efforts to optimize our branch network. As previously disclosed, we have consolidated 134 branches since 2011, with another 14 pending in the fourth quarter of 2017. We are currently evaluating the Old National franchise for additional consolidation opportunities in 2018.

Table of Contents**RESULTS OF OPERATIONS**

The following table sets forth certain income statement information of Old National for the three and nine months ended September 30, 2017 and 2016:

| (dollars in thousands)                        | Three Months Ended    |            |             | Nine Months Ended     |            |             |
|---|-----------------------|------------|-------------|-----------------------|------------|-------------|
|   | September 30,<br>2017 | 2016       | %<br>Change | September 30,<br>2017 | 2016       | %<br>Change |
| <b>Income Statement Summary:</b>              |                       |            |             |                       |            |             |
| Net interest income                           | \$ 108,478            | \$ 107,803 | 0.6%        | \$ 318,612            | \$ 292,786 | 8.8%        |
| Provision for loan losses                     | 311                   | 1,306      | (76.2)      | 2,013                 | 2,716      | (25.9)      |
| Noninterest income                            | 46,366                | 47,243     | (1.9)       | 138,557               | 190,079    | (27.1)      |
| Noninterest expense                           | 103,702               | 108,062    | (4.0)       | 308,404               | 327,889    | (5.9)       |
| <b>Other Data:</b>                            |                       |            |             |                       |            |             |
| Return on average common equity               | 8.31%                 | 7.62%      |             | 8.18%                 | 8.03%      |             |
| Efficiency ratio (1)                          | 64.17                 | 66.05      |             | 64.29                 | 64.50      |             |
| Tier 1 leverage ratio                         | 8.79                  | 8.42       |             | 8.79                  | 8.42       |             |
| Net charge-offs (recoveries) to average loans | 0.05                  | 0.07       |             | 0.02                  | 0.06       |             |

- (1) Efficiency ratio is defined as noninterest expense before amortization of intangibles as a percent of fully taxable net interest income and noninterest income, excluding net gains from securities transactions. This presentation excludes intangible amortization and net securities gains, as is common in other company disclosures, and better aligns with true operating performance. This is a non-GAAP financial measure that management believes to be helpful in understanding the financial results of the Company.

**Net Interest Income**

Net interest income is the most significant component of our earnings, comprising 70% of revenues for the nine months ended September 30, 2017. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources, and interest rate fluctuations. Other factors include the level of accretion income on purchased loans, prepayment risk on mortgage and investment-related assets, and the composition and maturity of earning assets and interest-bearing liabilities.

Short-term interest rates increased in the first nine months of 2017 as the Federal Reserve increased the discount rate 25 basis points at their March meeting and 25 basis points at their June meeting. The rate increases were driven by the Federal Reserve Board's inflation and wage pressure expectations in conjunction with a moderately expanding economy. The Treasury yield curve flattened as short-term rates rose while long-term interest rates remained flat to slightly declining. Collectively, these factors marginally improved the outlook for our net interest income and margin.

Loans typically generate more interest income than investment securities with similar maturities. Funding from client deposits generally costs less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy, and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.



Net interest income is the excess of interest received from earning assets over interest paid on interest-bearing liabilities. For analytical purposes, net interest income is also presented in the table that follows, adjusted to a taxable equivalent basis to reflect what our tax-exempt assets would need to yield in order to achieve the same after-tax yield as a taxable asset. We used the federal statutory tax rate in effect of 35% for all periods. This analysis portrays the income tax benefits associated in tax-exempt assets and helps to facilitate a comparison between taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully taxable equivalent basis. Therefore, management believes these measures provide useful information for both management and investors by allowing them to make peer comparisons.

**Table of Contents**

| (dollars in thousands)                       | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |               |
|--|-------------------------------------|---------------|------------------------------------|---------------|
|  | 2017                                | 2016          | 2017                               | 2016          |
| Net interest income                          | \$ 108,478                          | \$ 107,803    | \$ 318,612                         | \$ 292,786    |
| Conversion to fully taxable equivalent       | 5,621                               | 5,320         | 16,952                             | 15,787        |
| Net interest income taxable equivalent basis | \$ 114,099                          | \$ 113,123    | \$ 335,564                         | \$ 308,573    |
| Average earning assets                       | \$ 12,959,722                       | \$ 12,575,454 | \$ 12,849,822                      | \$ 11,548,052 |
| Net interest margin                          | 3.35%                               | 3.43%         | 3.31%                              | 3.38%         |
| Net interest margin taxable equivalent basis | 3.52%                               | 3.60%         | 3.48%                              | 3.56%         |

The increase in net interest income for the three and nine months ended September 30, 2017 when compared to the same periods in 2016 was primarily due to higher average earning assets of \$384.3 million in the three months ended September 30, 2017 when compared to the three months ended September 30, 2016 and \$1.302 billion in the nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016. Partially offsetting the higher average earning assets were higher average interest bearing liabilities of \$378.7 million in the three months ended September 30, 2017 when compared to the three months ended September 30, 2016 and \$1.154 billion in the nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016. Net interest income for the three and nine months ended September 30, 2017 and 2016 included accretion income (interest income in excess of contractual interest income) associated with acquired loans. Accretion income totaled \$11.1 million in the three months ended September 30, 2017 and \$33.4 million in the nine months ended September 30, 2017, compared to \$15.9 million in the three months ended September 30, 2016 and \$41.4 million in the nine months ended September 30, 2016. We expect accretion income on our PCI loans to decrease over time, but this may be offset by future acquisitions.

**Table of Contents**

The following tables present the average balance sheet for each major asset and liability category, its related interest income and yield, or its expense and rate for the three and nine months ended September 30, 2017 and 2016.

| (dollars in thousands)                              | Three Months Ended<br>September 30, 2017 |                        |                | Three Months Ended<br>September 30, 2016 |                        |                |
|---|--|------------------------|----------------|--|------------------------|----------------|
|   | Average<br>Balance                       | Income (1)/<br>Expense | Yield/<br>Rate | Average<br>Balance                       | Income (1)/<br>Expense | Yield/<br>Rate |
| <b>Earning Assets</b>                               |  |                        |                |  |                        |                |
| Money market and other interest-earning investments | \$ 32,755                                | \$ 85                  | 1.03%          | \$ 21,923                                | \$ 23                  | 0.42%          |
| Investment securities:                              |  |                        |                |  |                        |                |
| Treasury and government sponsored agencies          | 585,354                                  | 2,844                  | 1.94%          | 671,295                                  | 3,390                  | 2.02%          |
| Mortgage-backed securities                          | 1,456,034                                | 7,235                  | 1.99%          | 1,414,753                                | 6,353                  | 1.80%          |
| States and political subdivisions                   | 1,103,721                                | 13,065                 | 4.73%          | 1,139,983                                | 13,329                 | 4.68%          |
| Other securities                                    | 453,782                                  | 3,043                  | 2.68%          | 446,870                                  | 2,566                  | 2.30%          |
| Total investment securities                         | 3,598,891                                | 26,187                 | 2.91%          | 3,672,901                                | 25,638                 | 2.79%          |
| Loans: (2)  |  |                        |                |  |                        |                |
| Commercial  | 2,021,614                                | 20,731                 | 4.01%          | 1,861,906                                | 18,268                 | 3.84%          |
| Commercial real estate                              | 3,298,435                                | 43,646                 | 5.18%          | 2,975,029                                | 41,906                 | 5.51%          |
| Residential real estate loans                       | 2,144,478                                | 21,190                 | 3.95%          | 2,155,070                                | 22,343                 | 4.14%          |
| Consumer  | 1,863,549                                | 17,307                 | 3.68%          | 1,888,625                                | 16,855                 | 3.55%          |
| Total loans   | 9,328,076                                | 102,874                | 4.35%          | 8,880,630                                | 99,372                 | 4.41%          |
| Total earning assets                                | 12,959,722                               | \$ 129,146             | 3.95%          | 12,575,454                               | \$ 125,033             | 3.94%          |
| Less: Allowance for loan losses                     | (51,130)                                 |                        |                | (52,809)                                 |                        |                |
| <b>Non-earning Assets</b>                           |  |                        |                |  |                        |                |
| Cash and due from banks                             | 233,017                                  |                        |                | 204,991                                  |                        |                |
| Other assets  | 1,845,612                                |                        |                | 1,721,772                                |                        |                |
| Total assets  | \$ 14,987,221                            |                        |                | \$ 14,449,408                            |                        |                |
| <b>Interest-Bearing Liabilities</b>                 |  |                        |                |  |                        |                |
| NOW accounts  | \$ 2,570,321                             | \$ 544                 | 0.08%          | \$ 2,461,799                             | \$ 456                 | 0.07%          |
| Savings accounts                                    | 2,934,445                                | 1,289                  | 0.17%          | 2,708,307                                | 962                    | 0.14%          |
| Money market accounts                               | 661,635                                  | 142                    | 0.09%          | 936,232                                  | 326                    | 0.14%          |
| Time deposits                                       | 1,466,802                                | 3,150                  | 0.85%          | 1,527,251                                | 3,075                  | 0.80%          |
| Total interest-bearing deposits                     | 7,633,203                                | 5,125                  | 0.27%          | 7,633,589                                | 4,819                  | 0.25%          |
| Federal funds purchased and interbank borrowings    | 220,918                                  | 655                    | 1.18%          | 178,770                                  | 226                    | 0.50%          |

|  |                      |                  |              |               |                 |       |
|--|----------------------|------------------|--------------|---------------|-----------------|-------|
| Securities sold under agreements to repurchase   | <b>315,285</b>       | <b>280</b>       | <b>0.35%</b> | 355,734       | 375             | 0.42% |
| Federal Home Loan Bank advances                  | <b>1,506,606</b>     | <b>6,618</b>     | <b>1.74%</b> | 1,129,756     | 4,137           | 1.46% |
| Other borrowings                                 | <b>219,241</b>       | <b>2,369</b>     | <b>4.32%</b> | 218,720       | 2,353           | 4.30% |
| <b>Total borrowed funds</b>                      | <b>2,262,050</b>     | <b>9,922</b>     | <b>1.74%</b> | 1,882,980     | 7,091           | 1.50% |
| Total interest-bearing liabilities               | <b>\$ 9,895,253</b>  | <b>\$ 15,047</b> | <b>0.61%</b> | \$ 9,516,569  | \$ 11,910       | 0.50% |
| <b>Noninterest-Bearing Liabilities</b>           |                      |                  |              |               |                 |       |
| Demand deposits                                  | <b>\$ 3,049,503</b>  |                  |              | \$ 2,895,945  |                 |       |
| Other liabilities                                | <b>146,271</b>       |                  |              | 215,620       |                 |       |
| Shareholders' equity                             | <b>1,896,194</b>     |                  |              | 1,821,274     |                 |       |
| <b>Total liabilities and shareholders equity</b> | <b>\$ 14,987,221</b> |                  |              | \$ 14,449,408 |                 |       |
| Net interest rate spread                         |                      |                  | <b>3.34%</b> |               |                 | 3.44% |
| Net interest margin (3)                          |                      |                  | <b>3.52%</b> |               |                 | 3.60% |
| Taxable equivalent adjustment                    |                      | <b>\$ 5,621</b>  |              |               | <b>\$ 5,320</b> |       |

- (1) Interest income is reflected on a fully taxable equivalent basis.
- (2) Includes loans held for sale.
- (3) Net interest margin is defined as net interest income on a tax equivalent basis as a percentage of average earning assets.

**Table of Contents**

| (dollars in thousands)                              | Nine Months Ended<br>September 30, 2017 |                        |                | Nine Months Ended<br>September 30, 2016 |                        |                |
|---|---|------------------------|----------------|---|------------------------|----------------|
|   | Average<br>Balance                      | Income (1)/<br>Expense | Yield/<br>Rate | Average<br>Balance                      | Income (1)/<br>Expense | Yield/<br>Rate |
| <b>Earning Assets</b>                               |   |                        |                |   |                        |                |
| Money market and other interest-earning investments | \$ 29,172                               | \$ 171                 | 0.78%          | \$ 29,979                               | \$ 93                  | 0.42%          |
| Investment securities:                              |   |                        |                |   |                        |                |
| Treasury and government sponsored agencies          | 567,403                                 | 8,422                  | 1.98%          | 713,285                                 | 10,454                 | 1.95%          |
| Mortgage-backed securities                          | 1,484,132                               | 22,643                 | 2.03%          | 1,225,528                               | 16,992                 | 1.85%          |
| States and political subdivisions                   | 1,119,846                               | 40,047                 | 4.77%          | 1,120,344                               | 39,545                 | 4.71%          |
| Other securities                                    | 448,544                                 | 8,738                  | 2.60%          | 436,466                                 | 7,522                  | 2.30%          |
| Total investment securities                         | 3,619,925                               | 79,850                 | 2.94%          | 3,495,623                               | 74,513                 | 2.85%          |
| Loans: (2)  |   |                        |                |   |                        |                |
| Commercial  | 1,949,921                               | 59,171                 | 4.00%          | 1,823,223                               | 53,138                 | 3.83%          |
| Commercial real estate                              | 3,237,053                               | 123,800                | 5.04%          | 2,488,888                               | 105,217                | 5.55%          |
| Residential real estate loans                       | 2,137,982                               | 63,712                 | 3.97%          | 1,939,148                               | 59,274                 | 4.08%          |
| Consumer  | 1,875,769                               | 50,450                 | 3.60%          | 1,771,191                               | 48,837                 | 3.68%          |
| Total loans   | 9,200,725                               | 297,133                | 4.28%          | 8,022,450                               | 266,466                | 4.40%          |
| Total earning assets                                | 12,849,822                              | \$ 377,154             | 3.90%          | 11,548,052                              | \$ 341,072             | 3.92%          |
| Less: Allowance for loan losses                     | (50,927)                                |                        |                | (52,054)                                |                        |                |
| <b>Non-earning Assets</b>                           |   |                        |                |   |                        |                |
| Cash and due from banks                             | 209,752                                 |                        |                | 186,506                                 |                        |                |
| Other assets  | 1,861,261                               |                        |                | 1,612,410                               |                        |                |
| Total assets  | \$ 14,869,908                           |                        |                | \$ 13,294,914                           |                        |                |
| <b>Interest-Bearing Liabilities</b>                 |   |                        |                |   |                        |                |
| NOW accounts  | \$ 2,599,696                            | \$ 1,511               | 0.08%          | \$ 2,331,596                            | \$ 1,099               | 0.06%          |
| Savings accounts                                    | 2,949,412                               | 3,655                  | 0.17%          | 2,475,739                               | 2,585                  | 0.14%          |
| Money market accounts                               | 684,346                                 | 437                    | 0.09%          | 784,057                                 | 698                    | 0.12%          |
| Time deposits                                       | 1,449,840                               | 8,629                  | 0.80%          | 1,306,693                               | 8,184                  | 0.84%          |
| Total interest-bearing deposits                     | 7,683,294                               | 14,232                 | 0.25%          | 6,898,085                               | 12,566                 | 0.24%          |
| Federal funds purchased and interbank borrowings    | 192,343                                 | 1,433                  | 1.00%          | 157,499                                 | 566                    | 0.48%          |
| Securities sold under agreements to repurchase      | 325,230                                 | 870                    | 0.36%          | 373,474                                 | 1,139                  | 0.41%          |
| Federal Home Loan Bank advances                     | 1,460,293                               | 17,947                 | 1.64%          | 1,073,414                               | 11,164                 | 1.39%          |
| Other borrowings                                    | 219,097                                 | 7,108                  | 4.33%          | 224,000                                 | 7,064                  | 4.20%          |

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|   |                      |                  |              |               |           |       |
|---|----------------------|------------------|--------------|---------------|-----------|-------|
| Total borrowed funds                      | <b>2,196,963</b>     | <b>27,358</b>    | <b>1.66%</b> | 1,828,387     | 19,933    | 1.46% |
| Total interest-bearing liabilities        | <b>\$ 9,880,257</b>  | <b>\$ 41,590</b> | <b>0.56%</b> | \$ 8,726,472  | \$ 32,499 | 0.50% |
| <b>Noninterest-Bearing Liabilities</b>    |                      |                  |              |               |           |       |
| Demand deposits                           | <b>\$ 2,985,386</b>  |                  |              | \$ 2,698,873  |           |       |
| Other liabilities                         | <b>141,616</b>       |                  |              | 195,078       |           |       |
| Shareholders equity                       | <b>1,862,649</b>     |                  |              | 1,674,491     |           |       |
| Total liabilities and shareholders equity | <b>\$ 14,869,908</b> |                  |              | \$ 13,294,914 |           |       |
| Net interest rate spread                  |                      |                  | <b>3.34%</b> |               |           | 3.42% |
| Net interest margin (3)                   |                      |                  | <b>3.48%</b> |               |           | 3.56% |
| Taxable equivalent adjustment             |                      | <b>\$ 16,952</b> |              |               | \$ 15,787 |       |

- (1) Interest income is reflected on a fully taxable equivalent basis.
- (2) Includes loans held for sale.
- (3) Net interest margin is defined as net interest income on a tax equivalent basis as a percentage of average earning assets.

**Table of Contents**

The following table presents the dollar amount of changes in taxable equivalent net interest income attributable to changes in the average balances of assets and liabilities and the yields earned or rates paid for the three and nine months ended September 30, 2017 and 2016.

| (dollars in thousands)                              | From Three Months Ended<br>September 30, 2016 to Three<br>Months Ended September 30, 2017 |                         |                   | From Nine Months Ended<br>September 30, 2016 to Nine<br>Months Ended September 30, 2017 |                         |                   |
|---|---|-------------------------|-------------------|---|-------------------------|-------------------|
|   | Total<br>Change   | Attributed to<br>Volume | Rate              | Total<br>Change   | Attributed to<br>Volume | Rate              |
| <b>Interest Income</b>                              |   |                         |                   |   |                         |                   |
| Money market and other interest-earning investments | \$ 62   | \$ 19                   | \$ 43             | \$ 78   | \$ (4)                  | \$ 82             |
| Investment securities (1)                           | 549   | (528)                   | 1,077             | 5,337   | 2,832                   | 2,505             |
| Loans (1)   | 3,502   | 4,863                   | (1,361)           | 30,667  | 38,184                  | (7,517)           |
| <b>Total interest income</b>                        | <b>4,113</b>  | <b>4,354</b>            | <b>(241)</b>      | <b>36,082</b>   | <b>41,012</b>           | <b>(4,930)</b>    |
| <b>Interest Expense</b>                             |   |                         |                   |   |                         |                   |
| NOW deposits  | 88  | 22                      | 66                | 412   | 140                     | 272               |
| Savings deposits                                    | 327   | 92                      | 235               | 1,070   | 539                     | 531               |
| Money market deposits                               | (184)   | (77)                    | (107)             | (261)   | (76)                    | (185)             |
| Time deposits                                       | 75  | (121)                   | 196               | 445   | 872                     | (427)             |
| Federal funds purchased and interbank borrowings    | 429   | 90                      | 339               | 867   | 191                     | 676               |
| Securities sold under agreements to repurchase      | (95)  | (38)                    | (57)              | (269)   | (138)                   | (131)             |
| Federal Home Loan Bank advances                     | 2,481   | 1,522                   | 959               | 6,783   | 4,385                   | 2,398             |
| Other borrowings                                    | 16  | 6                       | 10                | 44  | (157)                   | 201               |
| <b>Total interest expense</b>                       | <b>3,137</b>  | <b>1,496</b>            | <b>1,641</b>      | <b>9,091</b>  | <b>5,756</b>            | <b>3,335</b>      |
| <b>Net interest income</b>                          | <b>\$ 976</b>   | <b>\$ 2,858</b>         | <b>\$ (1,882)</b> | <b>\$ 26,991</b>  | <b>\$ 35,256</b>        | <b>\$ (8,265)</b> |

The variance not solely due to rate or volume is allocated equally between the rate and volume variances.

- (1) Interest on investment securities and loans includes the effect of taxable equivalent adjustments of \$3.8 million and \$1.8 million, respectively, during the three months ended September 30, 2017; and \$11.7 million and \$5.3 million, respectively, during the nine months ended September 30, 2017; using the federal statutory rate in effect of 35% for all periods.

The decrease in the net interest margin on a fully taxable equivalent basis for the three and nine months ended September 30, 2017 when compared to the same periods in 2016 was primarily due to lower yields associated with accretion income on acquired loans, higher costs of interest bearing liabilities, and a change in the mix of average interest earning assets and interest bearing liabilities. Accretion income represented 34 basis points of the net interest margin for the three months ended September 30, 2017, compared to 51 basis points of the net interest margin for the

three months ended September 30, 2016. The yield on interest earning assets increased 1 basis point and the cost of interest-bearing liabilities increased 6 basis points in the quarterly year-over-year comparison. The yield on interest earning assets is calculated by dividing annualized taxable equivalent net interest income by average interest earning assets while the cost of interest-bearing liabilities is calculated by dividing annualized interest expense by average interest-bearing liabilities. Accretion income represented 34 basis points of the net interest margin for the nine months ended September 30, 2017, compared to 47 basis points of the net interest margin for the nine months ended September 30, 2016. The yield on interest earning assets decreased 2 basis points and the cost of interest-bearing liabilities increased 6 basis points in the nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016.

Average earning assets were \$12.960 billion for the three months ended September 30, 2017, compared to \$12.575 billion for the three months ended September 30, 2016, an increase of \$384.3 million, or 3%. Average earning assets were \$12.850 billion for the nine months ended September 30, 2017, compared to \$11.548 billion for the nine months ended September 30, 2016, an increase of \$1.302 billion, or 11%. The increases in average earning assets were primarily due to our acquisition of Anchor (WI) in May 2016. The loan portfolio including loans held for sale, which generally has an average yield higher than the investment portfolio, was approximately 72% of average interest earning assets for the nine months ended September 30, 2017, compared to 69% for the nine months ended September 30, 2016.



## **Table of Contents**

Average loans including loans held for sale increased \$447.4 million for the three months ended September 30, 2017 and \$1.178 billion for the nine months ended September 30, 2017 when compared to the same periods in 2016 reflecting organic loan growth, as well as an increase attributable to loans acquired from Anchor (WI) in May 2016. Loans including loans held for sale attributable to the Anchor (WI) acquisition totaled \$1.647 billion as of the closing date of the acquisition.

Average investments decreased \$74.0 million for the three months ended September 30, 2017 and increased \$124.3 million for the nine months ended September 30, 2017 when compared to the same periods in 2016. The increase for the nine months ended September 30, 2017 reflected the Anchor (WI) acquisition.

Average non-interest bearing deposits increased \$153.6 million for the three months ended September 30, 2017 and \$286.5 million for the nine months ended September 30, 2017 when compared to the same periods in 2016 reflecting the Anchor (WI) acquisition. Average interest bearing deposits decreased \$0.4 million for the three months ended September 30, 2017 and increased \$785.2 million for the nine months ended September 30, 2017 when compared to the same periods in 2016. The increase for the nine months ended September 30, 2017 reflected the Anchor (WI) acquisition.

Average borrowed funds increased \$379.1 million for the three months ended September 30, 2017 and \$368.6 million for the nine months ended September 30, 2017 when compared to the same periods in 2016 primarily due to increased funding needed as a result of growth in our loan portfolio that outpaced deposit growth.

## **Provision for Loan Losses**

The provision for loan losses was \$0.3 million for the three months ended September 30, 2017, compared to \$1.3 million for the three months ended September 30, 2016. Net charge-offs totaled \$1.1 million during the three months ended September 30, 2017, compared to net charge-offs of \$1.6 million during the three months ended September 30, 2016. The provision for loan losses was \$2.0 million for the nine months ended September 30, 2017, compared to \$2.7 million for the nine months ended September 30, 2016. Net charge-offs totaled \$1.7 million during the nine months ended September 30, 2017, compared to net charge-offs of \$3.4 million during the nine months ended September 30, 2016. Continued loan growth in future periods, a decline in our current level of recoveries, or an increase in charge-offs could result in an increase in provision expense.

**Table of Contents****Noninterest Income**

We generate revenues in the form of noninterest income through client fees, sales commissions, and other gains and losses from our core banking franchise and other related businesses, such as wealth management, investment consulting, and investment products. The following table details the components in noninterest income for the three and nine months ended September 30, 2017 and 2016:

| (dollars in thousands)                                      | Three Months Ended |                  |               | Nine Months Ended  |                   |                |
|---|--------------------|------------------|---------------|--------------------|-------------------|----------------|
|   | September 30, 2017 | 2016             | % Change      | September 30, 2017 | 2016              | % Change       |
| Wealth management fees                                      | \$ 8,837           | \$ 8,572         | 3.1%          | \$ 27,515          | \$ 26,048         | 5.6%           |
| Service charges on deposit accounts                         | 10,535             | 11,054           | (4.7)         | 30,418             | 31,130            | (2.3)          |
| Debit card and ATM fees                                     | 4,248              | 4,330            | (1.9)         | 12,920             | 12,586            | 2.7            |
| Mortgage banking revenue                                    | 5,104              | 7,718            | (33.9)        | 14,516             | 15,841            | (8.4)          |
| Insurance premiums and commissions                          | 170                | 132              | 28.8          | 437                | 20,375            | (97.9)         |
| Investment product fees                                     | 5,193              | 5,038            | 3.1           | 15,186             | 13,667            | 11.1           |
| Capital markets income                                      | 1,843              | 849              | 117.1         | 5,621              | 2,262             | 148.5          |
| Company-owned life insurance                                | 2,022              | 2,163            | (6.5)         | 6,288              | 6,281             | 0.1            |
| Net securities gains (losses)                               | 2,972              | 1,647            | 80.4          | 7,547              | 4,609             | 63.7           |
| Recognition of deferred gain on sale leaseback transactions | 537                | 235              | 128.5         | 1,612              | 2,325             | (30.7)         |
| Gain on sale of ONB Insurance Group, Inc.                   |                    |                  | N/M           |                    | 41,864            | (100.0)        |
| Change in FDIC indemnification asset                        |                    |                  | N/M           |                    | 233               | (100.0)        |
| Other income  | 4,905              | 5,505            | (10.9)        | 16,497             | 12,858            | 28.3           |
| <b>Total noninterest income</b>                             | <b>\$ 46,366</b>   | <b>\$ 47,243</b> | <b>(1.9)%</b> | <b>\$ 138,557</b>  | <b>\$ 190,079</b> | <b>(27.1)%</b> |

N/M = Not meaningful

The decrease in noninterest income for the three months ended September 30, 2017 when compared to the three months ended September 30, 2016 was primarily due to lower mortgage banking revenue, partially offset by higher net securities gains and capital markets income.

The decrease in noninterest income for the nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016 was primarily due to a pre-tax gain of \$41.9 million resulting from the sale of ONI in May 2016 and lower insurance premiums and commissions. Offsetting these decreases was higher noninterest income attributable to the Anchor (WI) acquisition.

Wealth management fees increased \$0.3 million for the three months ended September 30, 2017 when compared to the three months ended September 30, 2016 reflecting higher corporate trust fees, mutual fund fees, tax preparation fees, and personal trust fees. Wealth management fees increased \$1.5 million for the nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016 reflecting higher personal trust fees, corporate trust fees, mutual fund fees, and tax preparation fees.

Service charges and overdraft fees decreased \$0.5 million for the three months ended September 30, 2017 and \$0.7 million for the nine months ended September 30, 2017 when compared to the same periods in 2016 primarily due to lower overdraft charges, partially offset by higher service charges and overdraft fees attributable to the Anchor (WI) acquisition.

Mortgage banking revenue decreased \$2.6 million for the three months ended September 30, 2017 and \$1.3 million for the nine months ended September 30, 2017 when compared to the same periods in 2016 primarily due to a decline in mortgage production and pipeline valuation resulting from higher rates.

Insurance premiums and commissions decreased \$19.9 million for the nine months ended September 30, 2017 when compared to the same period in 2016 reflecting the sale of ONI in May 2016.

Investment product fees increased \$1.5 million for the nine months ended September 30, 2017 when compared to the same period in 2016 primarily due to the Anchor (WI) acquisition.

**Table of Contents**

Capital markets income is comprised of customer interest rate swap fees, foreign currency exchange fees, and net gains (losses) on foreign currency adjustments. Capital markets income increased \$1.0 million for the three months ended September 30, 2017 and \$3.4 million for the nine months ended September 30, 2017 when compared to the same periods in 2016 primarily due to higher customer interest rate swap fees.

Net securities gains increased \$1.3 million for the three months ended September 30, 2017 and \$2.9 million for the nine months ended September 30, 2017 when compared to the same periods in 2016 primarily due to higher realized gains on sales of available-for-sale securities in 2017.

In the second quarter of 2016, we recorded a \$41.9 million pre-tax gain resulting from the sale of ONI in May 2016. The after-tax gain related to the sale totaled \$17.6 million.

Other income decreased \$0.6 million for the three months ended September 30, 2017 when compared to the same period in 2016 reflecting lower recoveries on loans originated by AnchorBank (WI) that had been fully charged-off prior to the acquisition. Recoveries on loans originated by AnchorBank (WI) totaled \$0.6 million for the three months ended September 30, 2017, compared to \$1.2 million for the three months ended September 30, 2016.

Other income increased \$3.6 million for the nine months ended September 30, 2017 when compared to the same period in 2016 reflecting higher recoveries on loans originated by AnchorBank (WI) and higher gains on sales of fixed assets. Recoveries on loans originated by AnchorBank (WI) totaled \$3.7 million for the nine months ended September 30, 2017, compared to \$1.2 million for the nine months ended September 30, 2016.

**Noninterest Expense**

The following table details the components in noninterest expense for the three and nine months ended September 30, 2017 and 2016:

| (dollars in thousands)          | Three Months Ended |            |          | Nine Months Ended  |            |          |
|---------------------------------|--------------------|------------|----------|--------------------|------------|----------|
|                                 | September 30, 2017 | 2016       | % Change | September 30, 2017 | 2016       | % Change |
| Salaries and employee benefits  | \$ 57,783          | \$ 60,861  | (5.1)%   | \$ 171,953         | \$ 180,548 | (4.8)%   |
| Occupancy                       | 11,670             | 12,944     | (9.8)    | 34,343             | 39,356     | (12.7)   |
| Equipment                       | 3,485              | 3,564      | (2.2)    | 10,062             | 9,773      | 3.0      |
| Marketing                       | 2,646              | 3,528      | (25.0)   | 9,369              | 11,125     | (15.8)   |
| Data processing                 | 7,696              | 8,242      | (6.6)    | 23,530             | 24,041     | (2.1)    |
| Communication                   | 2,163              | 2,755      | (21.5)   | 6,865              | 7,154      | (4.0)    |
| Professional fees               | 4,589              | 3,252      | 41.1     | 11,317             | 11,801     | (4.1)    |
| Loan expense                    | 1,542              | 2,213      | (30.3)   | 4,866              | 5,669      | (14.2)   |
| Supplies                        | 547                | 799        | (31.5)   | 1,720              | 1,980      | (13.1)   |
| FDIC assessment                 | 2,197              | 2,149      | 2.2      | 6,814              | 6,098      | 11.7     |
| Other real estate owned expense | 511                | 728        | (29.8)   | 2,635              | 3,251      | (18.9)   |
| Amortization of intangibles     | 2,641              | 3,233      | (18.3)   | 8,442              | 9,245      | (8.7)    |
| Other expense                   | 6,232              | 3,794      | 64.3     | 16,488             | 17,848     | (7.6)    |
| Total noninterest expense       | \$ 103,702         | \$ 108,062 | (4.0)%   | \$ 308,404         | \$ 327,889 | (5.9)%   |

Noninterest expense decreased \$4.4 million for the three months ended September 30, 2017 when compared to the same period in 2016 primarily due to lower acquisition and integration costs. Noninterest expense for the three months ended September 30, 2017 included \$0.4 million of acquisition and integration costs associated with Anchor (MN), compared to \$5.5 million for the three months ended September 30, 2016 associated with Anchor (WI).

Noninterest expense decreased \$19.5 million for the nine months ended September 30, 2017 when compared to the same period in 2016 primarily due to the reduction of costs associated with the divestiture of ONI in May 2016. In addition, noninterest expense for the nine months ended September 30, 2017 included \$0.4 million of acquisition and integration costs associated with Anchor (MN), compared to \$14.2 million for the nine months ended September 30, 2016 associated with Anchor (WI).

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**Table of Contents**

Salaries and benefits is the largest component of noninterest expense. Salaries and benefits decreased \$3.1 million for the three months ended September 30, 2017 and \$8.6 million for the nine months ended September 30, 2017 when compared to the same periods in 2016. Impacting salaries and benefits expense were the divestiture of ONI and the acquisition of Anchor (WI) described above. Also contributing to the decrease in salaries and benefits were lower pension expenses reflecting the termination of the Company's Retirement Plan effective May 15, 2016. The decreases were partially offset by higher incentive compensation in the three and nine months ended September 30, 2017.

Occupancy expenses decreased \$1.3 million for the three months ended September 30, 2017 and \$5.0 million for the nine months ended September 30, 2017 when compared to the same periods in 2016 primarily due to branch consolidations in the first quarter of 2017. The decreases were partially offset by occupancy expenses attributable to the Anchor (WI) acquisition.

Marketing expense decreased \$0.9 million for the three months ended September 30, 2017 and \$1.8 million for the nine months ended September 30, 2017 when compared to the same periods in 2016 primarily due to additional expenses recorded in 2016 associated with the Anchor (WI) acquisition. The decrease for the nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016 also reflected lower public relations expense.

Professional fees increased \$1.3 million for the three months ended September 30, 2017 when compared to the same period in 2016 primarily due to \$1.9 million in pre-tax expenses recorded in the three months ended September 30, 2017 related to a client-experience improvement initiative currently in process at the Company, partially offset by additional expenses recorded in 2016 associated with the Anchor (WI) acquisition. Professional fees decreased \$0.5 million for the nine months ended September 30, 2017 when compared to the same period in 2016 primarily due to additional expenses recorded in 2016 associated with the Anchor (WI) acquisition, partially offset by \$2.9 million in pre-tax expenses recorded in the nine months ended September 30, 2017 related to a client-experience improvement initiative currently in process at the Company. Upon completion of this initiative, the Company expects the costs incurred to considerably improve how we serve our clients and reduce costs in 2018.

Other expense increased \$2.4 million for the three months ended September 30, 2017 when compared to the three months ended September 30, 2016 primarily due to an unfavorable variance in provision for unfunded commitments of \$1.2 million and costs associated with branch consolidations totaling \$1.1 million.

Other expense decreased \$1.4 million for the nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016 primarily due to lower charitable contributions of \$4.1 million, partially offset by costs associated with branch consolidations totaling \$3.1 million. We anticipate tax credit amortization related to tax credit investments of approximately \$12.7 million to \$22.2 million in the fourth quarter of 2017 to be included in other expense (including approximately \$5.0 million from the Anchor (MN) partnership), dependent upon the date certain tax credit investments are placed in service. There was no tax credit amortization related to tax credit investments included in other expense in 2016 or the nine months ended September 30, 2017. See Note 12 to the consolidated financial statements for additional information on the Company's tax credit investments.

**Provision for Income Taxes**

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was 22.5% for the three months ended September 30, 2017, compared to 24.0% for the

three months ended September 30, 2016. The provision for income taxes, as a percentage of pre-tax income, was 22.2% for the nine months ended September 30, 2017, compared to 33.8% for the nine months ended September 30, 2016. In accordance with ASC 740-270, *Accounting for Interim Reporting*, the provision for income taxes was recorded at September 30, 2017 based on the current estimate of the effective annual rate. The lower effective tax rate during the three and nine months ended September 30, 2017 when compared to the same periods in 2016 was the result of an increase in federal tax credits available. Also contributing to the lower effective tax rate during the nine months ended September 30, 2017 when compared to the nine months ended September 30, 2016 was the sale of ONI in May 2016 and the associated tax expense of \$8.3 million to record a deferred tax liability relating to ONI's nondeductible goodwill. See Note 19 to the consolidated financial statements for additional information.

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**Table of Contents****FINANCIAL CONDITION****Overview**

At September 30, 2017, our assets were \$15.066 billion, a \$362.7 million increase compared to assets of \$14.703 billion at September 30, 2016, and a \$205.6 million increase compared to assets of \$14.860 billion at December 31, 2016. The increase from September 30, 2016 to September 30, 2017 was primarily due to commercial and commercial real estate loan growth.

**Earning Assets**

Our earning assets are comprised of investment securities, portfolio loans, loans held for sale, money market investments, interest earning accounts with the Federal Reserve, and trading securities. Earning assets were \$13.066 billion at September 30, 2017, a \$347.8 million increase compared to earning assets of \$12.718 billion at September 30, 2016, and a \$269.3 million increase compared to earning assets of \$12.796 billion at December 31, 2016.

*Investment Securities*

We classify the majority of our investment securities as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we also have \$7.6 million of fixed-rate mortgage-backed securities and \$681.3 million of state and political subdivision securities in our held-to-maturity investment portfolio at September 30, 2017.

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 \$5.4 million at September 30, 2017 compared to \$5.0 million at September 30, 2016.

At September 30, 2017, the investment securities portfolio, including trading securities, was \$3.587 billion compared to \$3.716 billion at September 30, 2016, a decrease of \$128.7 million. Investment securities represented 27% of earning assets at September 30, 2017, compared to 29% at September 30, 2016 and December 31, 2016. Investment securities decreased as a percentage of total earning assets due to a proportionately larger increase in loan balances. Stronger commercial loan demand in the future and management's decision to deleverage the balance sheet could result in a reduction in the securities portfolio. At September 30, 2017, management does not intend to sell any securities in an unrealized loss position and does not believe we will be required to sell such securities.

The investment securities available-for-sale portfolio had net unrealized losses of \$26.6 million at September 30, 2017, compared to net unrealized gains of \$23.5 million at September 30, 2016, and net unrealized losses of \$61.5 million at December 31, 2016. Net unrealized losses decreased from December 31, 2016 to September 30, 2017 primarily due to the effect of a decrease in long-term interest rates on municipal bonds and mortgage-backed securities.

The investment portfolio had an effective duration of 4.25 at September 30, 2017, compared to 3.75 at September 30, 2016, and 4.61 at December 31, 2016. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. Generally, there is more uncertainty in interest rates over a longer average maturity, resulting in a higher duration percentage. The annualized average yields on investment securities, on a taxable equivalent basis, were 2.91% for the three months ended September 30, 2017, compared to 2.79% for the three months ended September 30, 2016. The annualized average yields on investment securities, on a taxable equivalent



basis, were 2.94% for the nine months ended September 30, 2017, compared to 2.85% for the nine months ended September 30, 2016.

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**Table of Contents***Loans Held for Sale*

Mortgage loans held for immediate sale in the secondary market were \$30.2 million at September 30, 2017, compared to \$90.7 million at December 31, 2016. The decrease is primarily due to a decline in mortgage production resulting from higher rates and the timing of sales. Certain mortgage loans are committed for sale at or prior to origination at a contracted price to an outside investor. Other mortgage loans held for immediate sale are hedged with TBA forward agreements and committed for sale when they are ready for delivery and remain on the Company's balance sheet for a short period of time (typically 30 to 60 days). These loans are sold without recourse, beyond customary representations and warranties, and Old National has not experienced material losses arising from these sales. Mortgage originations are subject to volatility due to interest rates and home sales, among other factors.

We have elected the fair value option under FASB ASC 825-10 prospectively for residential loans held for sale. The aggregate fair value exceeded the unpaid principal balance by \$0.9 million at September 30, 2017 and \$1.7 million at September 30, 2016. The aggregate fair value exceeded the unpaid principal balance by \$0.1 million at December 31, 2016.

*Commercial and Commercial Real Estate Loans*

Commercial and commercial real estate loans are the largest classification within earning assets, representing 41% of earning assets at September 30, 2017, compared to 39% at September 30, 2016 and December 31, 2016. At September 30, 2017, commercial and commercial real estate loans were \$5.419 billion, an increase of \$490.3 million, or 10%, compared to September 30, 2016, and an increase of \$371.3 million, or 7%, compared to December 31, 2016.

*Residential Real Estate Loans*

At September 30, 2017, residential real estate loans held in our loan portfolio were \$2.119 billion, an increase of \$13.9 million compared to September 30, 2016, and an increase of \$31.6 million compared to December 31, 2016. Future increases in interest rates could result in a decline in the level of refinancings and new originations of residential real estate loans.

*Consumer Loans*

Consumer loans, including automobile loans, personal and home equity loans and lines of credit, and student loans, decreased \$11.1 million at September 30, 2017 compared to September 30, 2016, and decreased \$15.3 million from December 31, 2016. Management continues to slow indirect consumer loan originations, which are least profitable, in 2017.

**Premises and Equipment**

Premises and equipment, net of accumulated depreciation, increased \$79.2 million since September 30, 2016. During the fourth quarter of 2016, the Company purchased certain bank properties that it had previously leased for an aggregate purchase price of \$79.1 million.

**Net Deferred Tax Assets**

Net deferred tax assets decreased \$31.5 million compared to September 30, 2016 primarily due to lower deferred tax assets related to acquired loans and net operating loss carryforwards. Net deferred tax assets decreased \$43.9 million compared to December 31, 2016 primarily due to lower deferred tax assets related to unrealized losses on

available-for-sale investment securities, net operating loss carryforwards, acquired loans, and benefit plan accruals. Future decreases in the corporate tax rate could result in a loss in value of Old National's deferred tax assets, but would reduce future income tax expense. See Note 19 to the consolidated financial statements for additional information.

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**Table of Contents****Other Assets**

Other assets increased \$21.7 million, or 19%, since December 31, 2016 primarily due to an increase in low income housing partnership investments.

**Funding**

Total funding, comprised of deposits and wholesale borrowings, was \$13.018 billion at September 30, 2017, an increase of \$348.1 million from \$12.670 billion at September 30, 2016, and an increase of \$122.6 million from \$12.895 billion at December 31, 2016. Included in total funding were deposits of \$10.607 billion at September 30, 2017, a decrease of \$39.9 million from \$10.647 billion at September 30, 2016, and a decrease of \$136.5 million from \$10.743 billion at December 31, 2016. Noninterest-bearing deposits increased \$90.4 million from September 30, 2016 to September 30, 2017. NOW deposits increased \$53.0 million from September 30, 2016 to September 30, 2017, while savings deposits decreased \$31.1 million. Money market deposits decreased \$39.5 million from September 30, 2016 to September 30, 2017, while time deposits decreased \$112.7 million.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At September 30, 2017, wholesale borrowings, including federal funds purchased and interbank borrowings, securities sold under agreements to repurchase, Federal Home Loan Bank advances, and other borrowings, totaled \$2.411 billion, an increase of \$388.0 million, or 19%, from September 30, 2016, and an increase of \$259.0 million, or 12%, from December 31, 2016. Wholesale funding as a percentage of total funding was 19% at September 30, 2017, 16% at September 30, 2016, and 17% at December 31, 2016. The increase in wholesale funding from September 30, 2016 to September 30, 2017 was primarily due to increases in Federal Home Loan Bank advances and federal funds purchased and interbank borrowings, partially offset by a decrease in securities sold under agreements to repurchase.

**Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities decreased \$57.7 million, or 29%, from December 31, 2016 primarily due to lower derivative liabilities, lower deferred gain on sale leaseback transactions, and lower accrued pension expenses. Offsetting the decreases was an increase in unfunded commitments on low income housing partnership investments.

**Capital**

Shareholders' equity totaled \$1.907 billion at September 30, 2017, compared to \$1.834 billion at September 30, 2016 and \$1.814 billion at December 31, 2016. The change in unrealized gains (losses) on investment securities increased equity by \$23.0 million during the nine months ended September 30, 2017. We paid cash dividends of \$0.39 per share for the nine months ended September 30, 2017, which reduced equity by \$52.8 million. The Company's Common Stock is traded on the NASDAQ under the symbol "ONB" with 45,179 shareholders of record at September 30, 2017.

**Capital Adequacy**

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. At September 30, 2017, Old National and its bank subsidiary exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory definition.



**Table of Contents**

At September 30, 2017, Old National's consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

|  | <b>Fully<br/>Phased-In<br/>Regulatory<br/>Guidelines<br/>Minimum</b> | <b>September 30,<br/>2017</b> | <b>2016</b> | <b>December 31,<br/>2016</b> |
|--|--|-------------------------------|-------------|------------------------------|
| <b>Risk-based capital:</b>                                 |  |                               |             |                              |
| Tier 1 capital to total average assets (leverage ratio)    | 4.00%  | <b>8.79%</b>                  | 8.42%       | 8.43%                        |
| Common equity Tier 1 capital to risk-adjusted total assets | 7.00   | <b>11.66</b>                  | 11.77       | 11.51                        |
| Tier 1 capital to risk-adjusted total assets               | 8.50   | <b>11.96</b>                  | 11.92       | 11.65                        |
| Total capital to risk-adjusted total assets                | 10.50  | <b>12.46</b>                  | 12.49       | 12.18                        |
| Shareholders' equity to assets                             | N/A  | <b>12.66</b>                  | 12.48       | 12.21                        |

N/A = not applicable

At September 30, 2017, Old National Bank, Old National's bank subsidiary, maintained a strong capital position as evidenced by the following comparisons of key industry ratios.

|  | <b>Fully<br/>Phased-In<br/>Regulatory<br/>Guidelines<br/>Minimum</b> | <b>Well<br/>Capitalized<br/>Guidelines</b> | <b>September 30,<br/>2017</b> | <b>2016</b> | <b>December 31,<br/>2016</b> |
|--|--|--|-------------------------------|-------------|------------------------------|
| <b>Risk-based capital:</b>                                 |  |  |                               |             |                              |
| Tier 1 capital to total average assets (leverage ratio)    | 4.00%  | 5.00%                                      | <b>8.71%</b>                  | 8.59%       | 8.55%                        |
| Common equity Tier 1 capital to risk-adjusted total assets | 7.00   | 6.50                                       | <b>11.84</b>                  | 12.15       | 11.83                        |
| Tier 1 capital to risk-adjusted total assets               | 8.50   | 8.00                                       | <b>11.84</b>                  | 12.15       | 11.83                        |
| Total capital to risk-adjusted total assets                | 10.50  | 10.00                                      | <b>12.35</b>                  | 12.73       | 12.35                        |

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires bank holding companies and any subsidiary banks with consolidated assets of more than \$10 billion and less than \$50 billion, including Old National, to complete and publicly disclose annual stress tests. The objective of the stress test is to ensure that the financial institution has capital planning processes that account for its unique risks, and to help ensure that the institution has sufficient capital to continue operations throughout times of economic and financial stress. The stress tests are conducted with baseline, adverse, and severely adverse economic scenarios. Old National completed its annual stress test that covered a nine-quarter planning horizon beginning January 1, 2017 and ending on March 31, 2019 and publicly disclosed a summary of the stress test results on October 24, 2017. The stress test showed that Old National would maintain capital levels well above the regulatory guideline minimum levels for all periods and under all stress test scenarios.

## **RISK MANAGEMENT**

### **Overview**

Old National has adopted a Risk Appetite Statement to enable the Board of Directors, Executive Leadership Group, and Senior Management to better assess, understand, and mitigate the risks of the Company. The Risk Appetite Statement addresses the following major risks: strategic, market, liquidity, credit, operational/technology, regulatory/compliance/legal, reputational, and human resources. Our Chief Risk Officer is independent of management and reports directly to the Chair of the Board's Enterprise Risk Management Committee. The following discussion addresses three of these major risks: credit, market, and liquidity.

## Table of Contents

### **Credit Risk**

Credit risk represents the risk of loss arising from an obligor's inability or failure to meet contractual payment or performance terms. Our primary credit risks result from our investment and lending activities.

### Investment Activities

We carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and the performance of the underlying collateral. At September 30, 2017, we had pooled trust preferred securities with a fair value of \$8.3 million, or less than 1% of the available-for-sale securities portfolio. These securities remained classified as available-for-sale and at September 30, 2017, the unrealized loss on our pooled trust preferred securities was approximately \$8.4 million. The fair value of these securities should improve as we get closer to maturity. There was no OTTI recorded during the nine months ended September 30, 2017 or 2016.

All of our mortgage-backed securities are backed by U.S. government-sponsored or federal agencies. Municipal bonds, corporate bonds, and other debt securities are evaluated by reviewing the credit-worthiness of the issuer and general market conditions. See Note 5 to the consolidated financial statements for additional details about our investment security portfolio.

### Counterparty Exposure

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National manages exposure to counterparty risk in connection with its derivatives transactions by generally engaging in transactions with counterparties having ratings of at least A by Standard & Poor's Rating Service or A2 by Moody's Investors Service. Total credit exposure is monitored by counterparty, and managed within limits that management believes to be prudent. Old National's net counterparty exposure was an asset of \$242.6 million at September 30, 2017.

### Lending Activities

#### Commercial

Commercial and industrial loans are made primarily for the purpose of financing equipment acquisition, expansion, working capital, and other general business purposes. Lease financing consists of direct financing leases and are used by commercial customers to finance capital purchases ranging from computer equipment to transportation equipment. The credit decisions for these transactions are based upon an assessment of the overall financial capacity of the applicant. A determination is made as to the applicant's ability to repay in accordance with the proposed terms as well as an overall assessment of the risks involved. In addition to an evaluation of the applicant's financial condition, a determination is made of the probable adequacy of the primary and secondary sources of repayment, such as additional collateral or personal guarantees, to be relied upon in the transaction. Credit agency reports of the applicant's credit history supplement the analysis of the applicant's creditworthiness.

Commercial mortgages and construction loans are offered to real estate investors, developers, and builders primarily domiciled in the geographic market areas we serve: Indiana, Kentucky, Michigan, and Wisconsin. These loans are secured by first mortgages on real estate at LTV margins deemed appropriate for the property type, quality, location, and sponsorship. Generally, these LTV ratios do not exceed 80%. The commercial properties are predominantly



non-residential properties such as retail centers, apartments, industrial properties and, to a lesser extent, more specialized properties. Substantially all of our commercial real estate loans are secured by properties located in our primary market area.

In the underwriting of our commercial real estate loans, we obtain appraisals for the underlying properties. Decisions to lend are based on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we primarily emphasize the ratio of the property's projected net

## Table of Contents

cash flows to the loan's debt service requirement. The debt service coverage ratio normally is not less than 120% and it is computed after deduction for a vacancy factor and property expenses as appropriate. In addition, a personal guarantee of the loan or a portion thereof is often required from the principal(s) of the borrower. In most cases, we require title insurance insuring the priority of our lien, fire, and extended coverage casualty insurance, and flood insurance, if appropriate, in order to protect our security interest in the underlying property. In addition, business interruption insurance or other insurance may be required.

Construction loans are underwritten against projected cash flows derived from rental income, business income from an owner-occupant, or the sale of the property to an end-user. We may mitigate the risks associated with these types of loans by requiring fixed-price construction contracts, performance and payment bonding, controlled disbursements, and pre-sale contracts or pre-lease agreements.

## Consumer

We offer a variety of first mortgage and junior lien loans to consumers within our markets, with residential home mortgages comprising our largest consumer loan category. These loans are secured by a primary residence and are underwritten using traditional underwriting systems to assess the credit risks of the consumer. Decisions are primarily based on LTV ratios, DTI ratios, liquidity, and credit scores. A maximum LTV ratio of 80% is generally required, although higher levels are permitted with mortgage insurance or other mitigating factors. We offer fixed rate mortgages and variable rate mortgages with interest rates that are subject to change every year after the first, third, fifth, or seventh year, depending on the product and are based on fully-indexed rates such as LIBOR. We do not offer payment-option facilities, sub-prime loans, or any product with negative amortization.

Home equity loans are secured primarily by second mortgages on residential property of the borrower. The underwriting terms for the home equity product generally permits borrowing availability, in the aggregate, up to 90% of the appraised value of the collateral property at the time of origination. We offer fixed and variable rate home equity loans, with variable rate loans underwritten at fully-indexed rates. Decisions are primarily based on LTV ratios, DTI ratios, and credit scores. We do not offer home equity loan products with reduced documentation.

Automobile loans include loans and leases secured by new or used automobiles. We originate automobile loans and leases primarily on an indirect basis through selected dealerships. We require borrowers to maintain collision insurance on automobiles securing consumer loans, with us listed as loss payee. Our procedures for underwriting automobile loans include an assessment of an applicant's overall financial capacity, including credit history and the ability to meet existing obligations and payments on the proposed loan. Although an applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral security to the proposed loan amount.

We assumed student loans in the acquisition of Anchor (WI) in May 2016. At September 30, 2017, student loans totaled \$70.2 million and are guaranteed by the government from 97% to 100%.

## Asset Quality

Community-based lending personnel, along with region-based independent underwriting and analytic support staff, extend credit under guidelines established and administered by our Enterprise Risk Committee. This committee, which meets quarterly, is made up of outside directors. The committee monitors credit quality through its review of information such as delinquencies, credit exposures, peer comparisons, problem loans, and charge-offs. In addition, the committee reviews and approves recommended loan policy changes to assure it remains appropriate for the current lending environment.

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling, and retailing. Old National manages concentrations of credit exposure by industry, product, geography, customer relationship, and loan size, with no concentration of loans exceeding 10% of its portfolio. At September 30, 2017, we had minimal exposure to foreign borrowers and no sovereign debt. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Kentucky, Michigan, and Wisconsin. We are experiencing a slow and gradual improvement in the economy of our principal markets. Management expects that trends in under-performing, criticized, and classified loans will be influenced by the degree to which the economy strengthens or weakens.

**Table of Contents**

Summary of under-performing, criticized and classified assets:

| (dollars in thousands)   | <b>September 30,</b> |             | <b>December 31,</b> |
|--|----------------------|-------------|---------------------|
|  | <b>2017</b>          | <b>2016</b> | <b>2016</b>         |
| <b>Nonaccrual loans:</b>   |                      |             |                     |
| Commercial   | <b>\$ 29,529</b>     | \$ 49,352   | \$ 56,585           |
| Commercial real estate   | <b>57,128</b>        | 73,803      | 44,026              |
| Residential real estate  | <b>19,535</b>        | 16,538      | 17,674              |
| Consumer   | <b>13,064</b>        | 11,791      | 13,122              |
| <b>Total nonaccrual loans (1)</b>  | <b>119,256</b>       | 151,484     | 131,407             |
| Renegotiated loans not on nonaccrual   | <b>17,886</b>        | 13,860      | 14,376              |
| <b>Past due loans (90 days or more and still accruing):</b>  |                      |             |                     |
| Commercial   | <b>251</b>           |             | 23                  |
| Residential real estate  | <b>232</b>           | 152         | 2                   |
| Consumer   | <b>396</b>           | 291         | 303                 |
| <b>Total past due loans</b>  | <b>879</b>           | 443         | 328                 |
| Other real estate owned  | <b>10,259</b>        | 23,719      | 18,546              |
| <b>Total under-performing assets</b>   | <b>\$ 148,280</b>    | \$ 189,506  | \$ 164,657          |
| <b>Classified loans (includes nonaccrual, renegotiated, past due 90 days, and other problem loans)</b> |                      |             |                     |
|  | <b>\$ 209,524</b>    | \$ 233,469  | \$ 220,429          |
| Other classified assets (2)  | <b>7,526</b>         | 6,634       | 7,063               |
| Criticized loans   | <b>130,197</b>       | 125,840     | 95,462              |
| <b>Total criticized and classified assets</b>  | <b>\$ 347,247</b>    | \$ 365,943  | \$ 322,954          |
| <b>Asset Quality Ratios:</b>   |                      |             |                     |
| Non-performing loans/total loans (3) (4)   | <b>1.46%</b>         | 1.86%       | 1.62%               |
| Under-performing assets/total loans and other real estate owned (3)                                    | <b>1.58</b>          | 2.12        | 1.82                |
| Under-performing assets/total assets   | <b>0.98</b>          | 1.29        | 1.11                |
| Allowance for loan losses/under-performing assets (5)  | <b>33.83</b>         | 27.20       | 30.25               |
| Allowance for loan losses/nonaccrual loans (1)   | <b>42.07</b>         | 34.03       | 37.90               |

(1) Includes purchased credit impaired loans of approximately \$4.4 million at September 30, 2017, \$25.7 million at September 30, 2016, and \$16.7 million at December 31, 2016 that are categorized as nonaccrual because the collection of principal or interest is doubtful. These loans are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

(2) Includes 2 pooled trust preferred securities, 2 corporate securities, and 1 insurance policy at September 30, 2017.

(3) Loans exclude loans held for sale.

(4) Non-performing loans include nonaccrual and renegotiated loans.

(5) Because the acquired loans were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition

date.

Under-performing assets totaled \$148.3 million at September 30, 2017, compared to \$189.5 million at September 30, 2016 and \$164.7 million at December 31, 2016. Under-performing assets as a percentage of total loans and other real estate owned at September 30, 2017 were 1.58%, a decrease of 54 basis points from 2.12% at September 30, 2016 and a decrease of 24 basis points from 1.82% at December 31, 2016.

Nonaccrual loans decreased from September 30, 2016 primarily due to a decrease in nonaccrual commercial and commercial real estate loans. As a percentage of nonaccrual loans, the allowance for loan losses was 42.07% at September 30, 2017, compared to 34.03% at September 30, 2016 and 37.90% at December 31, 2016. PCI loans that were included in the nonaccrual category because the collection of principal or interest is doubtful totaled \$4.4 million at September 30, 2017, compared to \$25.7 million at September 30, 2016 and \$16.7 million at December 31, 2016. However, they are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

Total criticized and classified assets were \$347.2 million at September 30, 2017, a decrease of \$18.7 million from September 30, 2016, and an increase of \$24.3 million from December 31, 2016. Other classified assets include investment securities that fell below investment grade rating totaling \$7.5 million at September 30, 2017, compared to \$6.6 million at September 30, 2016 and \$7.1 million at December 31, 2016.

## **Table of Contents**

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

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

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

If we are unable to resolve a nonperforming loan issue, the credit will be charged off when it is apparent there will be a loss. For large commercial type loans, each relationship is individually analyzed for evidence of apparent loss based on quantitative benchmarks or subjectively based upon certain events or particular circumstances. Generally, Old National charges off small commercial loans scored through our small business credit center with contractual balances under \$250,000 that have been placed on nonaccrual status or became 90 days or more delinquent, without regard to the collateral position. For residential and consumer loans, a charge off is recorded at the time foreclosure is initiated or when the loan becomes 120 to 180 days past due, whichever is earlier.

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

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

At September 30, 2017, our TDRs consisted of \$21.8 million of commercial loans, \$32.7 million of commercial real estate loans, \$3.3 million of residential loans, and \$4.2 million of consumer loans totaling \$62.0 million. Approximately \$43.7 million of the TDRs at September 30, 2017 were included with nonaccrual loans. At December 31, 2016, our TDRs consisted of \$16.8 million of commercial loans, \$18.3 million of commercial real estate loans, \$3.0 million of residential loans, and \$2.6 million of consumer loans totaling \$40.7 million. Approximately \$26.3 million of the TDRs at December 31, 2016 were included with nonaccrual loans.

Old National has allocated specific reserves to customers whose loan terms have been modified in TDRs totaling \$6.5 million at September 30, 2017 and \$4.0 million of December 31, 2016. At September 30, 2017, Old National had committed to lend an additional \$3.9 million to customers with outstanding loans that are classified as TDRs.

The terms of certain other loans were modified during 2017 that did not meet the definition of a TDR. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to

determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under our internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral, or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or the delay in a payment.

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**Table of Contents**

PCI loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the PCI loan is being accounted for as part of a pool, it will not be removed from the pool. At September 30, 2017, it has not been necessary to remove any loans from PCI accounting.

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

*Allowance for Loan Losses and Reserve for Unfunded Commitments*

Loan charge-offs, net of recoveries, totaled \$1.1 million for the three months ended September 30, 2017, compared to \$1.6 million for the three months ended September 30, 2016. Annualized, net charge-offs (recoveries) to average loans were 0.05% for the three months ended September 30, 2017, compared to 0.07% for the three months ended September 30, 2016. Loan charge-offs, net of recoveries, totaled \$1.7 million for the nine months ended September 30, 2017, compared to \$3.4 million for the nine months ended September 30, 2016. Annualized, net charge-offs (recoveries) to average loans were 0.02% for the nine months ended September 30, 2017 compared to 0.06% for the nine months ended September 30, 2016. Management will continue its efforts to reduce the level of non-performing loans and may consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses.

To provide for the risk of loss inherent in extending credit, we maintain an 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.

At September 30, 2017, the allowance for loan losses was \$50.2 million, a decrease of \$1.3 million compared to \$51.5 million at September 30, 2016, and an increase of \$0.4 million compared to \$49.8 million at December 31, 2016. Continued loan growth in future periods, a decline in our current level of recoveries, or an increase in charge-offs could result in an increase in provision expense.

As a percentage of total loans excluding loans held for sale, the allowance was 0.53% at September 30, 2017, compared to 0.58% at September 30, 2016 and 0.55% at December 31, 2016.





**Table of Contents**

The following table provides additional details of the components of the allowance for loan losses, including ASC 450, *Contingencies*, for loans collectively evaluated for impairment, ASC 310-10, *Receivables*, for loans individually evaluated for impairment, and ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, for loans acquired with deteriorated credit quality:

| (dollars in thousands)        | Collectively<br>Evaluated for<br>Impairment | Individually<br>Evaluated for<br>Impairment | Acquired with<br>Deteriorated<br>Credit<br>Quality | Total               |
|-------------------------------|---|---|--|---------------------|
| Loan balance                  | \$ 9,332,146                                | \$ 99,789                                   | \$ 62,734  | \$ 9,494,669        |
| Remaining purchase discount   | (67,919)                                    | (4,072)                                     | (24,554)   | (96,545)            |
| <b>Loans, net of discount</b> | <b>\$ 9,264,227</b>                         | <b>\$ 95,717</b>                            | <b>\$ 38,180</b>                                   | <b>\$ 9,398,124</b> |
| Allowance, January 1, 2017    | \$ 41,532                                   | \$ 7,998                                    | \$ 278   | \$ 49,808           |
| Charge-offs                   | (5,670)                                     | (3,424)                                     | (346)  | (9,440)             |
| Recoveries                    | 2,845                                       | 4,264                                       | 679  | 7,788               |
| Provision expense             | 322   | 2,104                                       | (413)  | 2,013               |
| Allowance, September 30, 2017 | \$ 39,029                                   | \$ 10,942                                   | \$ 198   | \$ 50,169           |

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. The reserve for unfunded loan commitments is classified as a liability account on the balance sheet and totaled \$3.0 million at September 30, 2017, compared to \$3.2 million at December 31, 2016.

**Market Risk**

Market risk is the risk that the estimated fair value of our assets, liabilities, and derivative financial instruments will decline as a result of changes in interest rates or financial market volatility, or that our net income will be significantly reduced by interest rate changes.

The objective of our interest rate management process is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

Potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our normal business activities of gathering deposits and extending loans. Many factors affect our exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and re-pricing characteristics of financial instruments. Our earnings can also be affected by the monetary and fiscal policies of the U.S. Government and its agencies, particularly the Federal Reserve Board.

In managing interest rate risk, we, through the Funds Management Committee, a committee of the Board of Directors, establish guidelines, for asset and liability management, including measurement of short and long-term sensitivities to changes in interest rates. Based on the results of our analysis, we may use different techniques to manage changing

trends in interest rates including:

adjusting balance sheet mix or altering interest rate characteristics of assets and liabilities;

changing product pricing strategies;

modifying characteristics of the investment securities portfolio; or

using derivative financial instruments, to a limited degree.

A key element in our ongoing process is to measure and monitor interest rate risk using a model to quantify the impact of changing interest rates on the Company. The model quantifies the effects of various possible interest rate scenarios on projected net interest income. The model measures the impact on net interest income relative to a base case scenario. The base case scenario assumes that the balance sheet and interest rates are held at current levels.

**Table of Contents**

The model shows our projected net interest income sensitivity based on interest rate changes only and does not consider other forecast assumptions.

The following table illustrates our projected net interest income sensitivity over a two year cumulative horizon based on the asset/liability model at September 30, 2017 and 2016:

| (dollars in thousands)   | Immediate<br>Rate Decrease |                   | Immediate Rate Increase |                         |                         |
|--|----------------------------|-------------------|-------------------------|-------------------------|-------------------------|
|  | -50<br>Basis<br>Points     | Base              | +100<br>Basis<br>Points | +200<br>Basis<br>Points | +300<br>Basis<br>Points |
| <b>September 30, 2017</b>  |                            |                   |                         |                         |                         |
| Projected interest income:   |                            |                   |                         |                         |                         |
| Money market, other interest earning<br>investments, and investment securities | \$ 217,102                 | \$ 226,469        | \$ 238,772              | \$ 248,183              | \$ 258,931              |
| Loans  | 686,513                    | 736,265           | 833,468                 | 929,312                 | 1,024,703               |
| <b>Total interest income</b>   | <b>903,615</b>             | <b>962,734</b>    | <b>1,072,240</b>        | <b>1,177,495</b>        | <b>1,283,634</b>        |
| Projected interest expense:  |                            |                   |                         |                         |                         |
| Deposits   | 24,633                     | 45,784            | 107,821                 | 169,853                 | 231,879                 |
| Borrowings   | 71,078                     | 86,424            | 119,187                 | 151,939                 | 184,674                 |
| <b>Total interest expense</b>  | <b>95,711</b>              | <b>132,208</b>    | <b>227,008</b>          | <b>321,792</b>          | <b>416,553</b>          |
| <b>Net interest income</b>   | <b>\$ 807,904</b>          | <b>\$ 830,526</b> | <b>\$ 845,232</b>       | <b>\$ 855,703</b>       | <b>\$ 867,081</b>       |
| <b>Change from base</b>  | <b>\$ (22,622)</b>         |                   | <b>\$ 14,706</b>        | <b>\$ 25,177</b>        | <b>\$ 36,555</b>        |
| <b>% change from base</b>  | <b>-2.72%</b>              |                   | <b>1.77%</b>            | <b>3.03%</b>            | <b>4.40%</b>            |
| <b>September 30, 2016</b>  |                            |                   |                         |                         |                         |
| Projected interest income:   |                            |                   |                         |                         |                         |
| Money market, other interest earning<br>investments, and investment securities | \$ 214,854                 | \$ 225,998        | \$ 241,305              | \$ 253,977              | \$ 265,142              |
| Loans  | 598,007                    | 642,135           | 732,130                 | 820,580                 | 908,738                 |
| <b>Total interest income</b>   | <b>812,861</b>             | <b>868,133</b>    | <b>973,435</b>          | <b>1,074,557</b>        | <b>1,173,880</b>        |
| Projected interest expense:  |                            |                   |                         |                         |                         |
| Deposits   | 20,058                     | 39,312            | 99,543                  | 159,766                 | 219,982                 |
| Borrowings   | 47,578                     | 59,032            | 84,667                  | 110,271                 | 135,812                 |
| <b>Total interest expense</b>  | <b>67,636</b>              | <b>98,344</b>     | <b>184,210</b>          | <b>270,037</b>          | <b>355,794</b>          |
| <b>Net interest income</b>   | <b>\$ 745,225</b>          | <b>\$ 769,789</b> | <b>\$ 789,225</b>       | <b>\$ 804,520</b>       | <b>\$ 818,086</b>       |

|                    |             |           |           |           |
|--------------------|-------------|-----------|-----------|-----------|
| Change from base   | \$ (24,564) | \$ 19,436 | \$ 34,731 | \$ 48,297 |
| % change from base | -3.19%      | 2.52%     | 4.51%     | 6.27%     |

Our asset sensitivity decreased slightly year over year primarily due to changes in our balance sheet mix, investment duration, and prepayment speed behavior.

A key element in the measurement and modeling of interest rate risk is the re-pricing assumptions of our transaction deposit accounts, which have no contractual maturity dates. We assume this deposit base is comprised of both core and more volatile balances and consists of both non-interest bearing and interest bearing accounts. Core deposit balances are assumed to be less interest rate sensitive and provide longer term funding. Volatile balances are assumed to be more interest rate sensitive and shorter in term. As part of our semi-static balance sheet modeling, we assume interest rates paid on the volatile deposits move in conjunction with changes in interest rates, in order to retain these deposits. This may include current non-interest bearing accounts.

Because the models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect our net interest income, we recognize that model outputs are not guarantees of actual results. For this reason, we model many different combinations of interest rates and balance sheet assumptions to understand our overall sensitivity to market interest rate changes, including shocks, yield curve flattening, yield curve steepening, as well as forecasts of likely interest rate scenarios. At September 30, 2017, our projected net interest income sensitivity based on the asset/liability models we utilize was within the limits of the Company's interest rate risk policy for the scenarios tested.

**Table of Contents**

We use derivative instruments, primarily interest rate swaps, to mitigate interest rate risk, including certain cash flow hedges on variable-rate debt with a notional amount of \$725 million at September 30, 2017. Our derivatives had an estimated fair value loss of \$0.1 million at September 30, 2017, compared to an estimated fair value loss of \$5.9 million at December 31, 2016. See Note 20 to the consolidated financial statements for further discussion of derivative financial instruments.

**Liquidity Risk**

Liquidity risk arises from the possibility that we may not be able to satisfy current or future financial commitments, or may become unduly reliant on alternative funding sources. The Funds Management Committee of the Board of Directors establishes liquidity risk guidelines and, along with the Balance Sheet Management Committee, monitors liquidity risk. The objective of liquidity management is to ensure we have the ability to fund balance sheet growth and meet deposit and debt obligations in a timely and cost-effective manner. Management monitors liquidity through a regular review of asset and liability maturities, funding sources, and loan and deposit forecasts. We maintain strategic and contingency liquidity plans to ensure sufficient available funding to satisfy requirements for balance sheet growth, properly manage capital markets funding sources and to address unexpected liquidity requirements.

Loan repayments and maturing investment securities are a relatively predictable source of funds. However, deposit flows, calls of investment securities and prepayments of loans and mortgage-related securities are strongly influenced by interest rates, the housing market, general and local economic conditions, and competition in the marketplace. We continually monitor marketplace trends to identify patterns that might improve the predictability of the timing of deposit flows or asset prepayments.

A time deposit maturity schedule for Old National Bank is shown in the following table at September 30, 2017.

| (dollars in thousands) |                     |              |
|------------------------|---------------------|--------------|
| <b>Maturity Bucket</b> | <b>Amount</b>       | <b>Rate</b>  |
| 2017                   | \$ 335,643          | 0.74%        |
| 2018                   | 701,848             | 0.83         |
| 2019                   | 175,550             | 1.05         |
| 2020                   | 117,255             | 1.54         |
| 2021                   | 45,607              | 1.36         |
| 2022 and beyond        | 76,086              | 1.61         |
| <b>Total</b>           | <b>\$ 1,451,989</b> | <b>0.95%</b> |

Our ability to acquire funding at competitive prices is influenced by rating agencies' views of our credit quality, liquidity, capital, and earnings. Moody's Investor Service places us in an investment grade that indicates a low risk of default. For both Old National and Old National Bank:

Moody's Investor Service affirmed the Long-Term Rating of A3 of Old National Bancorp's senior unsecured/issuer rating on August 9, 2017.

Moody's Investor Service affirmed Old National Bank's long-term deposit rating of Aa3 on August 9, 2017.

The bank's short-term deposit rating was affirmed at P-1 and the bank's issuer rating was affirmed at A3.

The rating outlook from Moody's Investor Service is negative. Moody's Investor Service concluded a rating review of Old National Bank on August 9, 2017.

**Table of Contents**

The credit ratings of Old National and Old National Bank at September 30, 2017 are shown in the following table.

|                      | <b>Moody s Investor<br/>Service</b> |                   |
|----------------------|-------------------------------------|-------------------|
|                      | <b>Long-term</b>                    | <b>Short-term</b> |
| Old National Bancorp | A3                                  | N/A               |
| Old National Bank    | Aa3                                 | P-1               |
| N/A = not applicable |                                     |                   |

Old National Bank maintains relationships in capital markets with brokers and dealers to issue certificates of deposit and short-term and medium-term bank notes as well. At September 30, 2017, Old National Bancorp and its subsidiaries had the following availability of liquid funds and borrowings:

| (dollars in thousands)                                     | Parent<br>Company | Subsidiaries        |
|--|-------------------|---------------------|
| <b>Available liquid funds:</b>                             |                   |                     |
| Cash and due from banks                                    | \$ 114,091        | \$ 138,276          |
| Unencumbered government-issued debt securities             |                   | 1,052,746           |
| Unencumbered investment grade municipal securities         |                   | 638,641             |
| Unencumbered corporate securities                          |                   | 138,903             |
| <b>Availability of borrowings:</b>                         |                   |                     |
| Amount available from Federal Reserve discount window*     |                   | 481,341             |
| Amount available from Federal Home Loan Bank Indianapolis* |                   | 519,039             |
| <b>Total available funds</b>                               | <b>\$ 114,091</b> | <b>\$ 2,968,946</b> |

\*Based on collateral pledged

The Parent Company (Old National Bancorp) has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows, and funds used for acquisitions. The Parent Company can obtain funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit, and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt and equity markets. At September 30, 2017, the Parent Company's other borrowings outstanding were \$215.3 million.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. Prior regulatory approval to pay dividends was not required in 2016 and is not currently required.

**OFF-BALANCE SHEET ARRANGEMENTS**



Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of our customers. Our banking affiliates have entered into various agreements to extend credit, including loan commitments of \$2.430 billion and standby letters of credit of \$50.2 million at September 30, 2017. At September 30, 2017, approximately \$2.288 billion of the loan commitments had fixed rates and \$141.6 million had floating rates, with the floating rates ranging from 0% to 25%. At December 31, 2016, loan commitments were \$2.354 billion and standby letters of credit were \$51.7 million. The term of these off-balance sheet arrangements is typically one year or less.

Old National is a party in three separate risk participation transactions of interest rate swaps, which had total notional amount of \$19.2 million at September 30, 2017.

**Table of Contents****CONTRACTUAL OBLIGATIONS**

The following table presents our significant fixed and determinable contractual obligations at September 30, 2017:

| (dollars in thousands)                               | <b>One Year<br/>or Less (1)</b> | <b>Payments Due In</b>        |                                    |                                | <b>Total</b> |
|--|---------------------------------|-------------------------------|------------------------------------|--------------------------------|--------------|
|  |                                 | <b>One to<br/>Three Years</b> | <b>Three to<br/>Five<br/>Years</b> | <b>Over<br/>Five<br/>Years</b> |              |
| Deposits without stated maturity                     | \$ 9,154,795                    | \$                            | \$                                 | \$                             | \$ 9,154,795 |
| IRAs, consumer, and brokered certificates of deposit | 335,643                         | 877,398                       | 162,862                            | 76,086                         | 1,451,989    |
| Federal funds purchased and interbank borrowings     | 317,021                         |                               |                                    |                                | 317,021      |
| Securities sold under agreements to repurchase       | 260,409                         | 25,000                        |                                    |                                | 285,409      |
| Federal Home Loan Bank advances                      | 752,752                         | 476,937                       | 50,000                             | 309,678                        | 1,589,367    |
| Other borrowings                                     | 19                              | 226                           | 190                                | 218,879                        | 219,314      |
| Fixed interest payments (2)                          | 5,880                           | 35,551                        | 30,029                             | 56,370                         | 127,830      |
| Operating leases                                     | 4,232                           | 31,180                        | 28,840                             | 79,881                         | 144,133      |
| Other long-term liabilities (3)                      | 7,978                           | 24,605                        | 44                                 | 76                             | 32,703       |

(1) For the remaining three months of fiscal 2017.

(2) Our senior notes, subordinated notes, certain trust preferred securities, and certain Federal Home Loan Bank advances have fixed-rates ranging from 1.01% to 6.08%. All of our other long-term debt is at LIBOR based variable-rates at September 30, 2017. The projected variable interest assumes no increase in LIBOR rates from September 30, 2017.

(3) Includes amount expected to be contributed to the Restoration Plan in 2017 (amounts for 2018 and beyond are unknown at this time) and unfunded commitments on qualified affordable housing projects and other tax credit investments.

We rent certain premises and equipment under operating leases. See Note 9 to the consolidated financial statements for additional information on long-term lease arrangements.

We are party to various derivative contracts as a means to manage the balance sheet and our related exposure to changes in interest rates, to manage our residential real estate loan origination and sale activity, and to provide derivative contracts to our clients. Since the derivative liabilities recorded on the balance sheet change frequently and do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 20 to the consolidated financial statements.

In the normal course of business, various legal actions and proceedings are pending against us and our affiliates which are incidental to the business in which they are engaged. Further discussion of contingent liabilities is included in Note 21 to the consolidated financial statements.

In addition, liabilities recorded under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109) are not included in the table because the amount and

timing of any cash payments cannot be reasonably estimated. Further discussion of income taxes and liabilities recorded under FASB ASC 740-10 is included in Note 19 to the consolidated financial statements.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016. Certain accounting policies require management to use significant judgment and estimates, which can have a material impact on the carrying value of certain assets and liabilities. We consider these policies to be critical accounting policies. The judgment and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from estimates, which could have a material effect on our financial condition and results of operations.

The following accounting policies materially affect our reported earnings and financial condition and require significant judgments and estimates. Management has reviewed these critical accounting estimates and related disclosures with our Audit Committee.

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**Table of Contents****Goodwill and Intangibles**

**Description.** For acquisitions, we are required to record the assets acquired, including identified intangible assets, and the liabilities assumed at their fair value. These often involve estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates, or other relevant factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective. Under FASB ASC 350, *Intangibles Goodwill and Other*, goodwill and indefinite-lived assets recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible asset.

**Judgments and Uncertainties.** The determination of fair values is based on valuations using management's assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors.

**Effect if Actual Results Differ From Assumptions.** Changes in these factors, as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying values of goodwill or intangible assets and could result in impairment losses affecting our financials as a whole and our banking subsidiary in which the goodwill or intangibles resides.

**Acquired Impaired Loans**

**Description.** Loans acquired with evidence of credit deterioration since inception and for which it is probable that all contractual payments will not be received are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). These loans are recorded at fair value at the time of acquisition, with no carryover of the related allowance for loan losses. Fair value of acquired loans is determined using a discounted cash flow methodology based on assumptions about the amount and timing of principal and interest payments, principal prepayments and principal defaults and losses, and current market rates. In recording the acquisition date fair values of acquired impaired loans, management calculates a non-accretable difference (the credit component of the purchased loans) and an accretable difference (the yield component of the purchased loans).

Over the life of the acquired loans, we continue to estimate cash flows expected to be collected on pools of loans sharing common risk characteristics, which are treated in the aggregate when applying various valuation techniques. We evaluate at each balance sheet date whether the present value of our pools of loans determined using the effective interest rates has decreased significantly and if so, recognize a provision for loan loss in our consolidated statement of income. For any significant increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the pool's remaining life.

**Judgments and Uncertainties.** These cash flow evaluations are inherently subjective as they require management to make estimates about expected cash flows, market conditions and other future events that are

highly subjective in nature and subject to change.

**Effect if Actual Results Differ From Assumptions.** Changes in these factors, as well as changing economic conditions will likely impact the carrying value of these acquired loans.

#### **Allowance for Loan Losses**

**Description.** The allowance for loan losses is maintained at a level believed adequate by management to absorb probable incurred losses 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 represents management's best estimate, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on results of operations.

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**Table of Contents**

The allowance is increased through a provision charged to operating expense. Uncollectible loans are charged-off through the allowance. Recoveries of loans previously charged-off are added to the allowance. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. Our policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status. A loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. We monitor the quality of our loan portfolio on an on-going basis and use a combination of detailed credit assessments by relationship managers and credit officers, historic loss trends, and economic and business environment factors in determining the allowance for loan losses. We record provisions for loan losses based on current loans outstanding, grade changes, mix of loans, and expected losses. A detailed loan loss evaluation on an individual loan basis for our highest risk loans is performed quarterly. Management follows the progress of the economy and how it might affect our borrowers in both the near and the intermediate term. We have a formalized and disciplined independent loan review program to evaluate loan administration, credit quality, and compliance with corporate loan standards. This program includes periodic, regular reviews of problem loan reports, delinquencies and charge-offs.

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

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

**Effect if Actual Results Differ From Assumptions.** The allowance represents management's best estimate, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on results of operations.

Management's analysis of probable losses in the portfolio at September 30, 2017 resulted in a range for allowance for loan losses of \$15.4 million. The range pertains to general (FASB ASC 450, *Contingencies*) reserves for both retail and performing commercial loans. Specific (FASB ASC 310, *Receivables*) reserves do not have a range of probable loss. Due to the risks and uncertainty associated with the economy and our projection of loss rates inherent in the portfolio, we establish a range of probable outcomes (a high-end estimate and a low-end estimate) and evaluate our position within this range. The potential effect to net income based on our position in the range relative to the high and low endpoints is a decrease of \$1.5 million and an increase of \$8.5 million, respectively, after taking into account the tax effects. These sensitivities are hypothetical and may not represent actual results.

**Derivative Financial Instruments**

**Description.** As part of our overall interest rate risk management, we use derivative instruments to reduce exposure to changes in interest rates and market prices for financial instruments. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial

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**Table of Contents**

instruments and hedged items. To the extent hedging relationships are found to be effective, as determined by FASB ASC 815, *Derivatives and Hedging* ( ASC Topic 815 ), changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. Management believes hedge effectiveness is evaluated properly in preparation of the financial statements. All of the derivative financial instruments we use have an active market and indications of fair value can be readily obtained. We are not using the short-cut method of accounting for any fair value derivatives.

**Judgments and Uncertainties.** The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items.

**Effect if Actual Results Differ From Assumptions.** To the extent hedging relationships are found to be effective, as determined by ASC Topic 815, changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. However, if in the future the derivative financial instruments used by us no longer qualify for hedge accounting treatment, all changes in fair value of the derivative would flow through the consolidated statements of income in other noninterest income, resulting in greater volatility in our earnings.

**Income Taxes**

**Description.** We are subject to the income tax laws of the U.S., its states, and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate. FASB ASC 740-10 (FIN 48) prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 19 to the consolidated financial statements for a further description of our provision and related income tax assets and liabilities.

**Judgments and Uncertainties.** In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit.

**Effect if Actual Results Differ From Assumptions.** Although management believes that the judgments and estimates used are reasonable, actual results could differ and we may be exposed to losses or gains that could be material. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would result in a reduction in our effective income tax rate in the period of resolution.



Management has discussed the development and selection of these critical accounting estimates with the Audit Committee and the Audit Committee has reviewed our disclosure relating to it in this Management's Discussion and Analysis of Financial Condition and Results of Operations .

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

In this report, we have made various statements regarding current expectations or forecasts of future events, which speak only as of the date the statements are made. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are also made from time-to-time in press releases and in oral statements made by the officers of Old National Bancorp ( Old National, or the Company ). Forward-looking statements can be identified by the use of the words expect, may, could, intend, project, estimate, believe, anticipate, and other words of similar meaning. Forward-looking statements also include, but are not limited to, statements regarding estimated cost savings, plans and objectives for future operations, the Company s business and growth strategies, including future acquisitions of banks, regulatory developments, and expectations about performance as well as economic and market conditions and trends.

Such forward-looking statements are based on assumptions and estimates, which although believed to be reasonable, may turn out to be incorrect. Therefore, undue reliance should not be placed upon these estimates and statements. We cannot assure that any of these statements, estimates, or beliefs will be realized and actual results may differ from those contemplated in these forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised to consult further disclosures we may make on related subjects in our filings with the SEC. In addition to other factors discussed in this report, some of the important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include the following:

economic, market, operational, liquidity, credit, and interest rate risks associated with our business;

economic conditions generally and in the financial services industry;

expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss, and revenue loss following completed acquisitions may be greater than expected;

failure to properly understand risk characteristics of newly entered markets;

increased competition in the financial services industry either nationally or regionally, resulting in, among other things, credit quality deterioration;

our ability to achieve loan and deposit growth;

volatility and direction of market interest rates;

governmental legislation and regulation, including changes in accounting regulation or standards;

our ability to execute our business plan;

a weakening of the economy which could materially impact credit quality trends and the ability to generate loans;

changes in the securities markets; and

changes in fiscal, monetary, and tax policies.

Investors should consider these risks, uncertainties, and other factors in addition to risk factors included in our other filings with the SEC.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

See Management's Discussion and Analysis of Financial Condition and Results of Operations Market Risk and Liquidity Risk.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Evaluation of disclosure controls and procedures. Old National's principal executive officer and principal financial officer have concluded that Old National's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q, are effective at the reasonable assurance level as discussed below to ensure that information required to be disclosed by Old National in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported

**Table of Contents**

within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to Old National's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Limitations on the Effectiveness of Controls.** Management, including the principal executive officer and principal financial officer, does not expect that Old National's disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be only reasonable assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Changes in Internal Control over Financial Reporting.** There were no changes in Old National's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, Old National's internal control over financial reporting.

**PART II****OTHER INFORMATION****ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****(c) ISSUER PURCHASES OF EQUITY SECURITIES**

| <b>Period</b> | <b>Total<br/>Number<br/>of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid Per<br/>Share</b> | <b>Total<br/>Number<br/>of Shares<br/>Purchased<br/>as<br/>Part of</b> | <b>Maximum<br/>Number of<br/>Shares that<br/>May Yet<br/>Be<br/>Purchased</b> |
|---------------|---|---|--|---|
|---------------|---|---|--|---|

|                         |         | <b>Publicly<br/>Announced Plans<br/>or<br/>Programs</b> | <b>Under<br/>the Plans or Programs</b> |
|-------------------------|---------|---|--|
| 7/1/17                  | 7/31/17 | 1,003   | \$ 17.12                               |
| 8/1/17                  | 8/31/17 | 991   | 16.40                                  |
| 9/1/17                  | 9/30/17 | 1,331   | 16.45                                  |
| Quarter-to-date 9/30/17 |         | 3,325   | \$ 16.64                               |

The Board of Directors did not authorize a stock repurchase plan for 2017. During the three months ended September 30, 2017, Old National repurchased a limited number of shares associated with employee share-based incentive programs.

**Table of Contents****ITEM 5. OTHER INFORMATION**

- (a) None
- (b) There have been no material changes in the procedure by which security holders recommend nominees to the Company's board of directors.

**ITEM 6. EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 2.1                | <u>Agreement and Plan of Merger dated as of August 7, 2017 by and between Old National Bancorp and Anchor Bancorp, Inc. (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 8, 2017).</u>   |
| 3.1                | <u>Fourth Amended and Restated Articles of Incorporation of Old National, amended May 13, 2016 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 16, 2016).</u>  |
| 3.2                | <u>Amended and Restated By-Laws of Old National, amended July 28, 2016 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 1, 2016).</u>  |
| 4.1                | <u>Senior Indenture between Old National and The Bank of New York Trust Company (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One, NA)), as trustee, dated as of July 23, 1997 (incorporated by reference to Exhibit 4.3 to Old National's Registration Statement on Form S-3, Registration No. 333-118374, filed with the Securities and Exchange Commission on December 2, 2004).</u> |
| 4.2                | <u>Second Indenture Supplement, dated as of August 15, 2014, between Old National and The Bank of New York Mellon Trust Company, N.A., as trustee, providing for the issuance of its 4.125% Senior Notes due 2024 (incorporated by reference to Exhibit 4.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 15, 2014).</u>  |
| 10.1               | <u>Form of Voting Agreement by and among shareholders of Anchor Bancorp, Inc. (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 8, 2017).</u>  |
| 10.2               | <u>Form of Lock-Up Agreement by a large common stock shareholder of Anchor Bancorp, Inc. (incorporated by reference to Exhibit 10.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 8, 2017).</u>   |
| 31.1               | <u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>   |
| 31.2               | <u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>   |

- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from Old National's Form 10-Q Report for the quarterly period ended September 30, 2017, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

Table of Contents

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OLD NATIONAL BANCORP

(Registrant)

By: /s/ James C. Ryan, III  
James C. Ryan, III

Senior Executive Vice President and Chief Financial Officer

Duly Authorized Officer and Principal Financial Officer

Date: November 1, 2017