OLD NATIONAL BANCORP /IN/
Form 10-K
February 15, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2017

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of the Registrant as specified in its charter)

INDIANA	**35-1539838**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Main Street	**47708**

Evansville, Indiana
(Address of principal executive offices) **(Zip Code)**
(812) 464-1294

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act

Title of Each Class	**Name of each exchange on which registered**
Common Stock, No Par Value	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 such filing requirements for 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 such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (s229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the registrant s voting common stock held by non-affiliates on June 30, 2017, was $2,295,172,245 (based on the closing price on that date of $17.25). In calculating the market value of securities held by non-affiliates of the registrant, the registrant has treated as securities held by affiliates as of June 30, 2017, voting stock owned of record by its directors and principal executive officers, and voting stock held by the registrant s trust department in a fiduciary capacity for benefit of its directors and principal executive officers. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares outstanding of the registrant s common stock, as of January 31, 2018, was 152,061,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held April 26, 2018 are incorporated by reference into Part III of this Form 10-K.

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2017 ANNUAL REPORT ON FORM 10-K

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

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

The acronyms and abbreviations identified below are used throughout this report, including the Notes to Consolidated Financial Statements. You may find it helpful to refer to this page as you read this report.

ACH: Automated Clearing House

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, without par 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

FHLBI: Federal Home Loan Bank of Indianapolis

FHTC: Federal Historic Tax Credit

FICO: Fair Isaac Corporation

Founders: Founders Financial Corporation

GAAP: generally accepted accounting principles

Integra: Integra Bank N.A.

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

NMTC: Federal New Market Tax Credits

NOW: negotiable order of withdrawal

OCC: Office of the Comptroller of the Currency

ONI: ONB Insurance Group, Inc.

OTTI: other-than-temporary impairment

PCI: purchased credit impaired

PD: probability of default

Renewable Energy: investment tax credits for solar projects

SEC: Securities and Exchange Commission

TBA: to be announced

TDR: troubled debt restructuring

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OLD NATIONAL BANCORP

2017 ANNUAL REPORT ON FORM 10-K

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.

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PART I

ITEM 1. BUSINESS
GENERAL

Old National is a financial holding company incorporated in the state of Indiana and maintains its principal executive office in Evansville, Indiana. We, through our wholly-owned banking subsidiary, provide a wide range of services, including commercial and consumer loan and depository services, private banking, brokerage, trust, investment advisory, and other traditional banking services. At December 31, 2017, we employed 2,801 full-time equivalent associates.

COMPANY PROFILE

Old National Bank, our wholly-owned banking subsidiary (Old National Bank), was founded in 1834 and is the oldest company in Evansville, Indiana. In 1982, Old National Bancorp was formed; in 2001 we became a financial holding company and we are currently the largest financial holding company headquartered in the state of Indiana with consolidated assets of $17.5 billion at December 31, 2017. At December 31, 2017, Old National Bank operated 191 banking centers located primarily in Indiana, Kentucky, Michigan, Wisconsin, and Minnesota.

OPERATING 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 is the only significant subsidiary for 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.

Lending Activities

We earn interest income on loans as well as fee income from the origination of loans. Lending activities include loans to individuals, which primarily consist of home equity lines of credit, residential real estate loans and consumer loans, and loans to commercial clients, which include commercial loans, commercial real estate loans, letters of credit, and lease financing. Residential real estate loans are either kept in our loan portfolio or sold to secondary investors, with gains or losses from the sales being recognized.

Depository Activities

We strive to serve individuals and commercial clients by providing depository services that fit their needs at competitive rates. We pay interest on the interest-bearing deposits and receive service fee revenue on various accounts. Deposit accounts include products such as noninterest-bearing demand, NOW, savings and money market,

and time deposits. Debit and ATM cards provide clients with access to their accounts 24 hours a day at any ATM location. We also provide 24-hour telephone access and online banking as well as other electronic and mobile banking services.

MARKET AREA

We own the largest Indiana-based bank headquartered in Indiana. Operating from a home base in Evansville, Indiana, we have continued to grow our footprint in Indiana, Kentucky, Michigan, Wisconsin, and Minnesota. Since the beginning of 2011, Old National has transformed its franchise by reducing low-return businesses and low-growth markets and investing in higher-growth markets.

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The following table reflects information on the top markets we currently serve, demonstrating that our largest metropolitan statistical areas compare favorably to the national average.

Metropolitan Statistical Area	Percent of Old National Bank Franchise (%)	Deposits Per Branch ($M)	2010-2018 Population Change (%)	2018-2023 Projected Population Change (%)	2018 Median Household Income ($)	2018-2023 Projected Household Income Change (%)
Evansville, IN-KY	15.7	131.3	1.6	1.4	49,987	4.2
Minneapolis-St. Paul-Bloomington, MN-WI (1)	13.4	98.7	7.5	4.2	76,791	9.7
Indianapolis-Carmel-Anderson, IN	8.2	42.7	7.6	3.7	58,682	7.6
Madison, WI (1)	7.4	42.1	9.0	4.2	70,042	11.0
Bloomington, IN (1)	5.3	132.1	5.2	3.0	48,147	8.4
Fort Wayne, IN (1)	3.9	97.9	4.6	2.8	54,542	9.1
Jasper, IN	3.2	79.0	0.6	1.1	57,432	5.9
Terre Haute, IN	3.0	75.0	(1.3)	0.1	43,017	0.3
Adrian, MI (1)	2.5	63.4	(1.5)	(0.3)	52,388	9.6
Ann Arbor, MI (1)	2.1	53.1	7.2	3.3	69,221	8.9
National average			**5.8**	**3.5**	**61,045**	**8.9**
Weighted average or sum total Old National Bank top 5	50.0	75.4	7.3	3.9	60,730	8.5
Weighted average or sum total Old National Bank top 10	64.7	75.0	6.8	3.6	58,025	7.8
(1) Expansion markets weighted average	**34.6**	**73.5**	**7.2**	**3.9**	**61,855**	**9.5**
Weighted average total Old National Bank			**3.5**	**2.1**	**57,541**	**7.7**

Source: SNL

ACQUISITION AND DIVESTITURE STRATEGY

Since the formation of Old National in 1982, we have acquired over 50 financial institutions and other financial services businesses. Future acquisitions and divestitures will be driven by a disciplined financial process and will be consistent with the existing focus on community banking, client relationships and consistent quality earnings. Targeted geographic markets for acquisitions include mid-size markets with average to above average growth rates.

We anticipate that, as with previous acquisitions, the consideration paid by us in future acquisitions may be in the form of cash, debt, or Old National stock, or a combination thereof. The amount and structure of such consideration is based on reasonable growth and cost savings assumptions and a thorough analysis of the impact on both long- and short-term financial results.

Effective November 1, 2017, Old National acquired St. Paul, Minnesota-based Anchor (MN) through a stock and cash merger. Anchor (MN) was a bank holding company with Anchor Bank (MN) as its wholly-owned subsidiary. Founded in 1967 and with 17 total branches, Anchor Bank (MN) was one of the largest community banks headquartered in the Twin Cities, and also served Mankato, Minnesota. Anchor Bank (MN) has no affiliation with the former AnchorBank (WI) in Madison, Wisconsin, which Old National acquired in 2016. Pursuant to the merger

agreement, each holder of Anchor (MN) common stock received $2.625 in cash and 1.350 shares of Old National Common Stock per share of Anchor (MN) common stock such holder owned. The total fair value of consideration for Anchor (MN) was $332.8 million, consisting of $31.9 million of cash and the issuance of 16.5 million shares of Old National Common Stock valued at $300.8 million. See Note 2 to the consolidated financial statements for further details on the Anchor (MN) acquisition.

Prior to 2017, our most recent acquisitions included the following:

- 24 bank branches from Bank of America in a cash transaction on July 12, 2013 that doubled Old National s presence in the South Bend/Elkhart, Indiana area and provided an entry into southwest Michigan;
- Indiana bank holding company Tower Financial Corporation through a stock and cash merger on April 25, 2014 that added seven full-service branches in the Fort Wayne, Indiana market and strengthened Old National s position as one of the largest deposit holders in Indiana;
- Michigan bank holding company United Bancorp, Inc. through a stock and cash merger on July 31, 2014 that added 18 branches in Ann Arbor, Michigan and the surrounding area, doubling our presence in Michigan;
- LSB Financial Corp. through a stock and cash merger on November 1, 2014 that added five branches in Lafayette, Indiana;
- Michigan-based Founders Financial Corporation through a stock and cash merger on January 1, 2015 that added four branches in the Grand Rapids, Michigan market; and
- Anchor BanCorp Wisconsin Inc. through a stock and cash merger on May 1, 2016 that added 46 branches in the Madison, Milwaukee, and Fox Valley triangle markets.

Over the past decade, we have transitioned our footprint into higher growth markets and opportunistically will continue to do so. We believe we have the right people and the right products in the right markets, with strong leadership in place.

Divestitures

On August 14, 2015, Old National divested its southern Illinois region (twelve branches) along with four branches in eastern Indiana and one in Ohio. At closing, the purchasers assumed loans of $193.6 million and deposits of $555.8 million. Old National recorded a net pre-tax gain of $15.6 million in connection with the divestitures, which included a deposit premium of $19.3 million, goodwill allocation of $3.8 million, and $0.9 million of other transaction expenses.

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. See Note 16 to the consolidated financial statements for further details on the income tax impact of this sale. 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.*

We continue to focus our efforts to optimize our branch network. Since the beginning of 2011, we have consolidated 148 banking centers (including 29 banking centers in 2017). Over the same period, we have more than doubled our assets and have increased our average total deposits per branch from $34 million to approximately $66 million, while only increasing our number of branches by 30. We will continue to review our branch system as we adapt to client behavior changes, continue to make technology improvements, and delivery model changes. Accordingly, as a result of our ongoing branch analysis, we expect a continued reduction in our branch network in 2018.

COMPETITION

The banking industry and related financial service providers operate in a highly competitive market. Old National competes with financial service providers such as other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds, and other financial intermediaries. In addition, Financial Technology, or FinTech, start-ups are emerging in key areas of banking.

Many of our nonfinancial institution competitors have fewer regulatory constraints, broader geographic service areas, greater capital, and, in some cases, lower cost structures. In addition, competition for quality customers has intensified as a result of changes in regulation, mergers and acquisitions, advances in technology and product delivery systems, consolidation among financial service providers, bank failures, and the conversion of certain former investment banks to bank holding companies.

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SUPERVISION AND REGULATION

Old National is subject to extensive regulation under federal and state laws. The regulatory framework is intended primarily for the protection of depositors, federal deposit insurance funds, and the banking system as a whole and not for the protection of shareholders and creditors.

Significant elements of the laws and regulations applicable to Old National and its subsidiaries are described below. The description is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations, or regulatory policies applicable to Old National and its subsidiaries, for which Old National cannot predict, could have a material effect on the business of the Company.

The Dodd-Frank Act. On July 21, 2010, financial regulatory reform legislation entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act significantly restructured the financial regulatory environment in the United States. The Dodd-Frank Act contains numerous provisions that affect all bank holding companies and banks, including Old National and Old National Bank, some of which are described in more detail below. The scope and impact of many of the Dodd-Frank Act provisions were determined and issued over time. The impact of the Dodd-Frank Act on Old National has been substantial. Provisions in the legislation that affect the payment of interest on demand deposits and collection of interchange fees increased the costs associated with certain deposits and placed limitations on certain revenues those deposits generate.

***The Volcker Rule*.** Section 619 of the Dodd-Frank Act contains provisions prohibiting proprietary trading and restricting the activities involving private equity and hedge funds (the Volcker Rule). Rules implementing the Volcker Rule were adopted in December 2013. Proprietary trading is defined as the trading of securities, derivatives, or futures (or options on any of the foregoing) as principal, where such trading is principally for the purpose of short-term resale, benefiting from actual or expected short-term price movements and realizing short-term arbitrage profits. The rule s definition of proprietary trading specifically excludes market-making-related activity, certain government issued securities trading and certain risk management activities. Old National and Old National Bank do not engage in any prohibited proprietary trading activities.

The final text of the Volcker Rule contained provisions to the effect that CDOs, including pooled trust preferred securities, would have to be sold prior to July 15, 2015. The practical implication of this rule provision, which was not expected by the industry, was that those instruments could no longer be accorded held-to-maturity accounting treatment but would have to be switched to available-for-sale accounting, and that all covered CDOs, regardless of the accounting classification, would need to be adjusted to fair value through an other-than-temporary impairment non-cash charge to earnings. On January 14, 2014, federal banking agencies released an interim final rule regarding the Volcker Rule s impact on trust preferred CDOs, which included a nonexclusive list of CDOs backed by trust preferred securities that depository institutions will be permitted to continue to hold. All of the trust preferred securities owned by Old National are on this list and held as available-for-sale . Any unrealized losses associated with these instruments have already impacted our capital. As of December 31, 2017, Old National does not have any securities that will have to be divested as a result of the Volcker Rule.

The Durbin Amendment. The Dodd-Frank Act included provisions (the Durbin Amendment) which capped interchange fees for debit card transactions at $0.21 plus five basis points for safe harbor eligibility, provided they were determined to be reasonable and proportionate. The Durbin Amendment began to negatively impact debit card and ATM fees beginning in the second half of 2015.

Bank Holding Company Regulation. Old National is registered as a bank holding company and has elected to be a financial holding company. It is subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (the Federal Reserve) under the Bank Holding Company Act of 1956, as amended (the BHC Act). The Federal Reserve has issued regulations under the BHC Act requiring a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. It is the policy of the Federal Reserve that, pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity. Under this requirement, Old National is expected to commit resources to support Old National Bank, including at times when Old National may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of such

subsidiary banks. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

The BHC Act requires the prior approval of the Federal Reserve to acquire more than a 5% voting interest of any bank or bank holding company. Additionally, the BHC Act restricts Old National s non-banking activities to those which are determined by the Federal Reserve to be closely related to banking and a proper incident thereto.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become undercapitalized (as defined in FDICIA) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal bank regulatory agency.

Capital and Liquidity Requirements. Bank holding companies are required to comply with the Federal Reserve s risk-based capital guidelines. The FDIC and the OCC have adopted risk-based capital ratio guidelines to which depository institutions under their respective supervision, including Old National Bank, are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Old National Bank exceeded all risk-based minimum capital requirements of the FDIC and OCC as of December 31, 2017 and 2016. For Old National s regulatory capital ratios and regulatory requirements as of December 31, 2017 and 2016, see Note 24 to the consolidated financial statements.

The federal regulatory authorities current risk-based capital guidelines are based upon the Basel Committee on Banking Supervision (the Basel Committee). The Basel Committee is a committee of international central banks and bank regulators responsible for establishing international supervisory guidelines for use in member jurisdictions to enhance and align bank regulation on a global scale and promote financial stability. In December 2010 and January 2011, the Basel Committee published the final revisions to the international regulatory capital framework generally referred to as Basel III, as a response to deficiencies in the international regulatory standards identified during the global financial crisis.

Effective July 2, 2013, the Federal Reserve and the OCC approved final rules known as the Basel III Capital Rules substantially revising the risk-based capital and leverage capital requirements applicable to bank holding companies and depository institutions, including Old National and Old National Bank. The Basel III Capital Rules address the components of capital and other issues affecting the numerator in banking institutions regulatory capital ratios. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies rules. Certain of the Basel III Capital Rules came into effect for Old National and Old National Bank on January 1, 2015; subject to a phase-in period ending on December 31, 2018.

The Basel III Capital Rules introduced a new capital measure Common Equity Tier 1 (CET1). The rules specify that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting specified requirements. CET1 capital consists of common stock instruments that meet the eligibility criteria in the final rules, retained earnings, accumulated other comprehensive income, and common equity Tier 1 minority interest. The rules also define CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1, and not to the other components of capital. They also expand the scope of the adjustments as compared to existing regulations.

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When fully phased-in on January 1, 2019, the Basel III Capital Rules will require banking organizations to maintain:

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio as that buffer is phased-in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0% upon full implementation);

- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased-in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation);

- a minimum ratio of total capital (that is, Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased-in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and

- a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to adjusted average consolidated assets.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer will face limitations on the payment of dividends, common stock repurchases and discretionary cash payments to executive officers based on the amount of the shortfall.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, Old National and Old National Bank are given a one-time election (the Opt-out Election) to filter certain AOCI components, comparable to the treatment under the current general risk-based capital rule. The Company chose the Opt-out Election on the March 31, 2015 Call Report and FR Y-9C for Old National Bank and Old National, respectively.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a five-year period (20% per year). The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased-in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The Basel III Capital Rules also provide for a countercyclical capital buffer that is applicable to only certain covered institutions and is not expected to have any current applicability to Old National or Old National Bank.

In addition, the Basel III Capital Rules revise the rules for calculating risk-weighted assets to enhance their risk sensitivity. They establish a new framework under which mortgage-backed securities and other securitization exposures will be subject to risk-weights ranging from 20% to 1,250%. The rules also establish adjusted risk-weights for credit exposures, including multi-family and commercial real estate exposures that are 90 days or more past due or

on non-accrual, which will be subject to a 150% risk-weight, except in situations where qualifying collateral and/or guarantees are in place. The existing treatment of residential mortgage exposures will remain subject to either a 50% risk-weight (for prudently underwritten owner-occupied first liens that are current or less than 90 days past due) or a 100% risk-weight (for all other residential mortgage exposures including 90 days or more past due exposures).

Management believes that, as of December 31, 2017, Old National and Old National Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company s net income.

The Basel III Capital Rules permit banks with less than $15 billion in assets to continue to treat trust preferred securities as Tier 1 capital. This treatment is permanently grandfathered as Tier 1 capital for organic growth but not as a result of a merger or acquisition. On November 1, 2017, Old National acquired Anchor (MN) and exceeded $15 billion in assets. As the result of this acquisition, Tier 1 treatment of trust preferred securities is prohibited and those securities can only be treated as Tier 2 capital. The Basel III Capital Rules also permit banks with less than $250 billion in assets to choose to continue excluding unrealized gains and losses on certain securities holdings for purposes of calculating regulatory capital. As previously reported, the Old National chose the Opt-out Election in its

March 31, 2015 Call Report. Additionally, the Basel III Capital Rules limit a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of a specified amount of CET1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements.

The Basel III liquidity framework applies a balance sheet perspective to establish quantitative standards designed to ensure that a banking organization is appropriately positioned to satisfy its short- and long-term funding needs. One test to address short-term liquidity risk is referred to as the liquidity coverage ratio (LCR), designed to calculate the ratio of a banking entities ratio of high-quality liquid assets to its total net cashflows over a 30-day time horizon. The other test, referred to as the net stable funding ratio (NSFR), is designed to promote more medium- and long-term asset funding by incenting banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt, as well as increase the use of long-term debt as a funding source. The Basel III liquidity framework was implemented as a minimum standard on January 1, 2015, with a phase-in period ending January 1, 2019. However, the federal banking agencies have not proposed rules implementing the Basel III liquidity framework and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

Management believes that, as of December 31, 2017, Old National Bank would meet the LCR requirement under the Basel III liquidity framework on a fully phased-in basis if such requirements were currently effective. Management s evaluation of the impact of the NSFR requirement is ongoing as of December 31, 2017. Requirements to maintain higher levels of liquid assets could adversely impact the Company s net income.

Stress Tests. The Dodd-Frank Act mandates company-run stress test requirements for U.S. bank holding companies with total consolidated assets of $10 billion to $50 billion. 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. The final stress test rule defines total consolidated assets as the average of the institution s total consolidated assets over the four most recent consecutive quarters as reported in the institution s Call Report. 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.

Prompt Corrective Action Regulations. The Federal Deposit Insurance Act (the FDIA) requires, among other things, federal bank regulatory authorities to take prompt corrective action with respect to banks which do not meet minimum capital requirements. Under current prompt corrective action regulations, a bank will be (i) well capitalized if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not well capitalized ; (iii) undercapitalized if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and (v) critically undercapitalized if the institution s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank s

overall financial condition or prospects for other purposes.

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The Basel III Capital Rules revised the prompt corrective action regulations pursuant to Section 38 of the FDIA, by:

- introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status;
- increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 risk-based capital ratio for well-capitalized status being 8.0% (as compared to the previous 6.0%); and
- eliminating the provision that provides that a bank with a composite supervisory rating of 1 may have a 3.0% leverage ratio and still be well-capitalized.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution s capital. In addition, for a capital restoration plan to be acceptable, the depository institution s parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

Management believes that, as of December 31, 2017, Old National Bank was well capitalized based on the existing ratios and the ratios as modified by the Basel III Capital Rules.

Deposit Insurance. Substantially all of the deposits of Old National Bank are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and Old National Bank is subject to deposit insurance assessments to maintain the DIF. Deposit insurance assessments are based on average consolidated total assets minus average tangible equity. Under the FDIC s risk-based assessment system, insured institutions with at least $10 billion in assets, such as Old National Bank, are assessed on the basis of a scoring system that combines the institution s regulatory ratings and certain financial measures. The scoring system assesses risk measures to produce two scores, a performance score and a loss severity score, that will be combined and converted to an initial assessment rate.

The performance score measures an institution s financial performance and its ability to withstand stress. The loss severity score quantifies the relative magnitude of potential losses to the FDIC in the event of an institution s failure. Once the performance and loss severity scores are calculated, these scores will be converted to a total score. An institution with a total score of 30 or less will pay the minimum base assessment rate, and an institution with a total score of 90 or more will pay the maximum initial base assessment rate. For total scores between 30 and 90, initial base

assessment rates will rise at an increasing rate as the total score increases. The FDIC has the authority to raise or lower assessment rates, subject to limits, and to impose special additional assessments.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the DIF reserve ratio reaches 1.35%, as required by the Dodd-Frank Act. The FDIC approved a final rule in March 2016 to meet this requirement by 2018. To meet the 1.35% DIF reserve ratio by 2018, the FDIC will assess banks with consolidated assets of more than $10 billion a surcharge assessment of 0.045% once the DIF reserve ratio reaches 1.15%. The reserve ratio reached 1.15% in the second half of 2016.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

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Safety and Soundness Regulations. In accordance with the FDIA, the federal banking agencies adopted guidelines establishing general standards relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, regulations adopted by the federal banking agencies authorize the agencies to require that an institution that has been given notice that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, the institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the agency must issue an order directing corrective actions and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of FDIA. If the institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Incentive Compensation. The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets, such as Old National and Old National Bank, that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but the regulations have not been finalized. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which Old National may structure compensation for its executives.

In June 2010, the Federal Reserve, OCC, and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees who have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act, discussed above.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as Old National, that are not large, complex banking organizations. These reviews will be tailored to each organization based on the scope and complexity of the organization s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization s supervisory ratings, which can affect the organization s ability to make acquisitions and take other actions.

Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Loans to One Borrower. Old National Bank generally may not make loans or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, up to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2017, Old National Bank was in compliance with the loans-to-one-borrower limitations.

Depositor Preference. The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the United States and the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

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Community Reinvestment Act. The Community Reinvestment Act of 1977 (CRA) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings that must be publicly disclosed. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of certain applications. Old National Bank received a rating of outstanding in its latest CRA examination for the period ended December 31, 2012.

Financial Privacy. The federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Old National Bank is also subject to regulatory guidelines establishing standards for safeguarding customer information. These guidelines describe the federal banking agencies expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

Anti-Money Laundering and the USA Patriot Act. A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act of 2001 (the USA Patriot Act) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations on financial institutions, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States.

On May 11, 2016, the Financial Crimes Enforcement Network (the FinCEN) issued new anti-money laundering (AML) rules governing corporate entities doing business with banks and other financial institutions that are subject to the requirements of the USA Patriot Act. The AML rules impose significant due diligence obligations on financial institutions with respect to opening of new accounts and the monitoring of existing accounts. Under the AML rules, a financial institution must identify persons owning or controlling 25% or more of a legal entity, whenever the legal entity opens a new account at the bank. The financial institution must also identify an individual who has substantial management authority at the legal entity, such as a CEO, CFO, or managing partner.

The AML rules codify within the FinCEN regulations the pillars that must be included in a financial institutions AML compliance program. Regulators previously communicated their expectations with respect to four of these pillars: (1) the development of internal policies, procedures, and control; (2) the designation of a compliance officer; (3) the establishment of an ongoing employee training program; and (4) the implementation of an independent audit function to test programs. The new beneficial ownership requirement establishes a fifth pillar. Among other things, this new pillar includes the necessity to monitor and update the beneficial ownership of a legal entity, including the need to subject corporate borrowers to due diligence requests from financial institutions for certifications with respect to their

beneficial owners. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Office of Foreign Assets Control Regulation. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others which are administered by the U.S. Treasury Department Office of Foreign Assets Control. Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Transactions with Affiliates. Transactions between Old National Bank and its affiliates are regulated by the Federal Reserve under sections 23A and 23B of the Federal Reserve Act and related regulations. These regulations limit the types and amounts of covered transactions engaged in by Old National Bank and generally require those transactions to be on an arm s-length basis. The term affiliate is defined to mean any company that controls or is under common control with Old National Bank and includes Old National and its non-bank subsidiaries. Covered transactions include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In general, these regulations require that any such transaction by Old National Bank (or its subsidiaries) with an affiliate must be secured by designated amounts of specified collateral and must be limited to certain thresholds on an individual and aggregate basis.

Federal law also limits Old National Bank s authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Old National Bank s capital.

Federal Home Loan Bank System. Old National Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the FHLBI, Old National Bank is required to acquire and hold shares of capital stock of the FHLBI in an amount at least equal to the sum of the membership stock purchase requirement, determined on an annual basis at the end of each calendar year, and the activity-based stock purchase requirement, determined on a daily basis. For Old National Bank, the membership stock purchase requirement is 1.0% of the Mortgage-Related Assets, as defined by the FHLBI, which consists principally of residential mortgage loans and mortgage-backed securities, held by Old National Bank. The activity-based stock purchase requirement is equal to the sum of: (1) a specified percentage ranging from 2.0% to 5.0%, which for Old National Bank is 5.0%, of outstanding borrowings from the FHLBI; (2) a specified percentage ranging from 0.0% to 5.0%, which for Old National Bank is 3.0%, of the outstanding principal balance of Acquired Member Assets, as defined by the FHLBI, and delivery commitments for Acquired Member Assets; (3) a specified dollar amount related to certain off-balance sheet items, which for Old National Bank is inapplicable; and (4) a specified percentage ranging from 0.0% to 5.0% of the carrying value on the FHLBI s balance sheet of derivative contracts between the FHLBI and Old National Bank, which for Old National Bank is inapplicable. The FHLBI can adjust the specified percentages and dollar amount from time to time within the ranges established by the FHLBI capital plan. As of December 31, 2017, Old National Bank was in compliance with the minimum stock ownership requirement.

Federal Reserve System. Federal Reserve regulations require depository institutions to maintain cash reserves against their transaction accounts (primarily NOW and demand deposit accounts). A reserve of 3% is to be maintained against aggregate transaction accounts between $12.4 million and $79.5 million (subject to adjustment by the Federal

Reserve) plus a reserve of 10% (subject to adjustment by the Federal Reserve between 8% and 14%) against that portion of total transaction accounts in excess of $79.5 million. The first $12.4 million of otherwise reservable balances (subject to adjustment by the Federal Reserve) is exempt from the reserve requirements. Old National Bank is in compliance with the foregoing requirements.

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Other Regulations. Old National Bank is subject to federal consumer protection statutes and regulations promulgated under those laws, including, but not limited to, the:

- Truth-In-Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act and Regulation C, requiring financial institutions to provide certain information about home mortgage and refinanced loans;
- Fair Credit Reporting Act and Regulation V, governing the provision of consumer information to credit reporting agencies and the use of consumer information;
- Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, religion or other prohibited factors in the extension of credit;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act and Regulation DD, which requires disclosure of deposit terms to consumers;
- Regulation CC, which relates to the availability of deposit funds to consumers;
- Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- Electronic Funds Transfer Act, governing automatic deposits to and withdrawals from deposit accounts and customers rights and liabilities arising from the use of automated teller machines and other electronic banking services.

The Dodd-Frank Act also significantly impacts the various consumer protection laws, rules and regulations applicable to financial institutions. The statute rolls back the federal preemption of state consumer protection laws that was enjoyed by national banks by (1) requiring that a state consumer financial law prevent or significantly interfere with the exercise of a national bank s powers before it can be preempted, (2) mandating that any preemption decision be made on a case by case basis rather than a blanket rule, and (3) ending the applicability of preemption to subsidiaries and affiliates of national banks. As a result, we may now be subject to state consumer protection laws in each state where we do business, and those laws may be interpreted and enforced differently in each state.

The Dodd-Frank Act also created the Consumer Financial Protection Bureau (the CFPB), a consumer financial services regulator with supervisory authority over banks and their affiliates with assets of more than $10 billion, like Old National, to carry out federal consumer protection laws. The CFPB also regulates financial products and services

sold to consumers and has rulemaking authority with respect to federal consumer financial laws. Any new regulatory requirements promulgated by the CFPB or modifications in the interpretations of existing regulations could require changes to Old National s consumer-facing businesses. The Dodd-Frank Act also gives the CFPB broad data collecting powers for fair lending for both small business and mortgage loans, as well as extensive authority to prevent unfair, deceptive, and abusive practices.

The rules issued by the CFPB have impacted our mortgage loan origination and servicing activities. Compliance with these rules will likely continue to increase our overall regulatory compliance costs.

Dividend Limitation. Old National Bank is subject to the provisions of the National Bank Act, is supervised, regulated and examined by the OCC, and is subject to the rules and regulations of the OCC, Federal Reserve and the FDIC. A substantial portion of Old National s cash revenue is derived from dividends paid to it by Old National Bank. These dividends are subject to various legal and regulatory restrictions as summarized in Note 24 to the consolidated financial statements.

Legislative and Regulatory Initiatives. From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of Old National in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. Old National cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of Old National. A change in statutes, regulations or regulatory policies applicable to Old National or any of its subsidiaries could have a material effect on Old National s business, financial condition and results of operations.

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AVAILABLE INFORMATION

All reports filed electronically by Old National with the SEC, including the annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements, other information and amendments to those reports filed or furnished (if applicable), are accessible at no cost on Old National s web site at www.oldnational.com as soon as reasonably practicable after electronically submitting such materials to the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, and Old National s filings are accessible on the SEC s web site at www.sec.gov. The public may read and copy any materials filed by Old National with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

Old National s business could be harmed by any of the risks noted below. In analyzing whether to make or to continue an investment in Old National, investors should consider, among other factors, the following:

Risks Related to the Banking Industry

Old National operates in a highly regulated environment, and changes in laws and regulations to which Old National is subject may adversely affect Old National s results of operations.

Old National operates in a highly regulated environment and is subject to extensive regulation, supervision, and examination by, among others, the OCC, the FDIC, the CFPB, the Federal Reserve, and the State of Indiana. Such regulation and supervision of the activities in which an institution may engage is primarily intended for the protection of the depositors and federal deposit insurance funds. In addition, the Treasury has certain supervisory and oversight duties and responsibilities under EESA and the CPP. See Business Supervision and Regulation herein. Applicable laws and regulations may change, and such changes may adversely affect Old National s business. The Dodd-Frank Act, enacted in July 2010, mandated the most wide-ranging overhaul of financial industry regulation in decades. This legislation, among other things, weakened federal preemption of state consumer protection laws and established the CFPB with broad authority to administer and enforce a new federal regulatory framework of consumer financial regulation, including consumer mortgage banking. The scope and impact of many of the Dodd-Frank Act provisions were determined and issued over time. The impact of the Dodd-Frank Act on Old National has been substantial. Provisions in the legislation that affect the payment of interest on demand deposits and collection of interchange fees increased the costs associated with certain deposits and placed limitations on certain revenues those deposits generate. In addition, the Dodd-Frank Act required Old National to change certain of its business practices, intensified the regulatory supervision of Old National and the financial services industry, increased Old National s capital requirements, and imposed additional assessments and costs on Old National. In addition, certain provisions in the legislation that had not previously applied to Old National became effective as Old National and its consolidated assets increased to over $10 billion in June 2014. This includes oversight by the CFPB and a requirement to submit our first stress test report in 2016. Requirements to maintain higher levels of capital or liquidity to address potential adverse stress scenarios could adversely impact the Company s net income.

Regulatory authorities also have extensive discretion in connection with their supervisory and enforcement activities, including but not limited to the imposition of restrictions on the operation of an institution, the classification of assets by the institution, the adequacy of an institution s Bank Secrecy Act/Anti Money Laundering program management, and the adequacy of an institution s allowance for loan losses. Any change in such regulation and oversight, whether in the form of restrictions on activities, regulatory policy, regulations, or legislation, including but not limited to changes

in the regulations governing institutions, could have a material impact on Old National and its operations.

If Old National fails to meet regulatory capital requirements which may require heightened capital, we may be forced to raise capital or sell assets.

Old National is subject to regulations that require us to satisfy certain capital ratios, such as the ratio of our Tier 1 capital to our risk-based assets. Both the Dodd-Frank Act, which reformed the regulation of financial institutions in a comprehensive manner, and the Basel III regulatory capital reforms, which increase both the amount and quality of capital that financial institutions must hold, will impact our capital requirements. Specifically, in July 2013, the U.S.

federal banking authorities approved the implementation of the Basel III Capital Rules. The Basel III Capital Rules are applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than small bank holding companies (generally bank holding companies with consolidated assets of less than $500 million). The Basel III Capital Rules not only increase most of the required minimum regulatory capital ratios, they introduce a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer. The Basel III Capital Rules also expand the current definition of capital by establishing additional criteria that capital instruments must meet to be considered Additional Tier 1 Capital (i.e., Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that now generally qualify as Tier 1 Capital will not qualify or their qualifications will change when the Basel III Capital Rules are fully implemented. The Basel III Capital Rules have maintained the general structure of the current prompt corrective action thresholds while incorporating the increased requirements, including the Common Equity Tier 1 Capital ratio. In order to be a well-capitalized depository institution under the new regime, an institution must maintain a Common Equity Tier 1 Capital ratio of 6.5% or more, a Tier 1 Capital ratio of 8% or more, a Total Capital ratio of 10% or more, and a leverage ratio of 5% or more. Institutions must also maintain a capital conservation buffer consisting of Common Equity Tier 1 Capital. Financial institutions became subject to the Basel III Capital Rules on January 1, 2015 with a phase-in period through 2019 for many of the changes. If we are unable to satisfy these heightened regulatory capital requirements, due to a decline in the value of our loan portfolio or otherwise, we will be required to improve such capital ratios by either raising additional capital or by disposing of assets. If we choose to dispose of assets, we cannot be certain that we will be able to do so at prices that we believe to be appropriate, and our future operating results could be negatively affected. If we choose to raise additional capital, we may accomplish this by selling additional shares of Common Stock, or securities convertible into or exchangeable for Common Stock, which could significantly dilute the ownership percentage of holders of our Common Stock and cause the market price of our Common Stock to decline. Additionally, events or circumstances in the capital markets generally may increase our capital costs and impair our ability to raise capital at any given time.

A reduction in our credit rating could adversely affect our business and/or the holders of our securities.

The credit rating agencies rating our indebtedness regularly evaluate Old National and Old National Bank, and credit ratings are based on a number of factors, including our financial strength and ability to generate earnings, as well as factors not entirely within our control, including conditions affecting the financial services industry and the economy and changes in rating methodologies. There can be no assurance that we will maintain our current credit ratings. A downgrade of the credit ratings of Old National or Old National Bank could adversely affect our access to liquidity and capital, and could significantly increase our cost of funds, and decrease the number of investors and counterparties willing to lend to us or purchase our securities. This could affect our growth, profitability, and financial condition, including liquidity.

Changes in interest rates could adversely affect Old National s results of operations and financial condition.

Old National s earnings depend substantially on Old National s interest rate spread, which is the difference between (i) the rates Old National earns on loans, securities and other earning assets and (ii) the interest rates Old National pays on deposits and other borrowings. These rates are highly sensitive to many factors beyond Old National s control, including general economic conditions and the policies of various governmental and regulatory authorities. If market interest rates rise, Old National will have competitive pressures to increase the rates that Old National pays on deposits, which could result in a decrease of Old National s net interest income. If market interest rates decline, Old National could experience fixed-rate loan prepayments and higher investment portfolio cash flows, resulting in a lower yield on earnings assets.

A failure or breach, including cyber-attacks, of our operational or security systems, could disrupt our business, result in the disclosure of confidential information, damage our reputation, and create significant financial and legal exposure.

Although we devote significant resources to maintain and regularly upgrade our systems and processes that are designed to protect the security of our computer systems, software, networks, and other technology assets and the confidentiality, integrity, and availability of information belonging to us and our customers, there is no assurance that our security measures will provide absolute security. Further, to access our products and services our customers may use computers and mobile devices that are beyond our security control systems. In fact, many other financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often

through the introduction of computer viruses or malware, cyberattacks, and other means. Certain financial institutions in the United States have also experienced attacks from technically sophisticated and well-resourced third parties that were intended to disrupt normal business activities by making internet banking systems inaccessible to customers for extended periods. These denial-of-service attacks have not breached our data security systems, but require substantial resources to defend, and may affect customer satisfaction and behavior.

Despite our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources, including persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. Those parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. We have implemented employee and customer awareness training around phishing, malware, and other cyber risks. These risks may increase in the future as we continue to increase our mobile payments and other internet-based product offerings and expand our internal usage of web-based products and applications.

If our security systems were penetrated or circumvented, it could cause serious negative consequences for us, including significant disruption of our operations, misappropriation of our confidential information or that of our customers, or damage our computers or systems and those of our customers and counterparties, and could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation exposure, and harm to our reputation, all of which could have a material adverse effect on us.

We rely on third party vendors, which could expose Old National to additional cybersecurity risks.

Third party vendors provide key components of our business infrastructure, including certain data processing and information services. On our behalf, third parties may transmit confidential, propriety information. Although we require third party providers to maintain certain levels of information security, such providers may remain vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious attacks that could ultimately compromise sensitive information. While we may contractually limit our liability in connection with attacks against third party providers, Old National remains exposed to the risk of loss associated with such vendors. In addition, a number of our vendors are large national entities with dominant market presence in their respective fields. Their services could prove difficult to replace in a timely manner if a failure or other service interruption were to occur. Failures of certain vendors to provide contracted services could adversely affect our ability to deliver products and services to our customers and cause us to incur significant expense.

Changes in economic or political conditions could adversely affect Old National s earnings, as the ability of Old National s borrowers to repay loans, and the value of the collateral securing such loans, decline.

Old National s success depends, to a certain extent, upon economic or political conditions, local and national, as well as governmental monetary policies. Conditions such as recession, unemployment, changes in interest rates, inflation, money supply, and other factors beyond Old National s control may adversely affect its asset quality, deposit levels, and loan demand and, therefore, Old National s earnings. Because Old National has a significant amount of commercial real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Adverse changes in the economy may also have a negative effect on the ability of Old National s borrowers to make timely repayments of their loans, which would have an adverse impact on Old National s earnings. In addition, substantially all of Old National s loans are to individuals and businesses in Old National s market area. Consequently,

any economic decline in Old National s primary market areas, which include Indiana, Kentucky, Michigan, Wisconsin, and Minnesota could have an adverse impact on Old National s earnings.

Failure to keep pace with technological change could adversely affect Old National s results of operations and financial condition.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Old National s future success depends, in part, upon its ability to address customer needs by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in Old National s operations. Old National may not

be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could negatively affect Old National s growth, revenue, and profit.

Changes in consumer use of banks and changes in consumer spending and savings habits could adversely affect Old National s financial results.

Technology and other changes now allow many customers to complete financial transactions without using banks. For example, consumers can pay bills and transfer funds directly without going through a bank. This process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and income generated from those deposits. In addition, changes in consumer spending and savings habits could adversely affect Old National s operations, and Old National may be unable to timely develop competitive new products and services in response to these changes.

Our earnings could be adversely impacted by incidences of fraud and compliance failure.

Financial institutions are inherently exposed to fraud risk. A fraud can be perpetrated by a customer of Old National, an employee, a vendor, or members of the general public. We are most subject to fraud and compliance risk in connection with the origination of loans, ACH transactions, wire transactions, ATM transactions, and checking transactions. Our largest fraud risk, associated with the origination of loans, includes the intentional misstatement of information in property appraisals or other underwriting documentation provided to us by third parties. Compliance risk is the risk that loans are not originated in compliance with applicable laws and regulations and our standards. There can be no assurance that we can prevent or detect acts of fraud or violation of law or our compliance standards by the third parties that we deal with. Repeated incidences of fraud or compliance failures would adversely impact the performance of our loan portfolio.

Risks Related to Old National s Business

Acquisitions may not produce revenue enhancements or cost savings at levels or within timeframes originally anticipated and may result in unforeseen integration difficulties and dilution to existing shareholder value.

We have acquired, and expect to continue to acquire, other financial institutions or parts of those institutions in the future, and we may engage in de novo branch expansion. We may also consider and enter into new lines of business or offer new products or services.

We may incur substantial costs to expand, and we can give no assurance such expansion will result in the levels of profits we seek. There can be no assurance that integration efforts for any mergers or acquisitions will be successful. Also, we may issue equity securities in connection with acquisitions, which could cause ownership and economic dilution to our current shareholders. There is no assurance that, following any mergers or acquisitions, our integration efforts will be successful or that, after giving effect to the acquisition, we will achieve profits comparable to, or better than, our historical experience.

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Acquisitions and mergers involve a number of expenses and risks, including:

- the time and costs associated with identifying potential new markets, as well as acquisition and merger targets;
- the accuracy of the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution;
- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- the diversion of our management s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combined businesses;
- entry into new markets where we lack experience;
- the introduction of new products and services into our business;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations;
- closing delays and increased expenses related to the resolution of lawsuits filed by shareholders of targets; and
- the risk of loss of key employees and customers.

Old National must generally receive federal regulatory approval before it can acquire a bank or bank holding company. Old National cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. Old National may be required to sell banks or branches as a condition to receiving regulatory approval.

Future acquisitions could be material to Old National and it may issue additional shares of stock to pay for those acquisitions, which would dilute current shareholder s ownership interests.

Economic conditions have affected and could continue to adversely affect our revenues and profits.

Old National s financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services that Old National offers, is highly dependent upon the business environment in the markets where Old National operates and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters, terrorist acts, or a combination of these or other factors.

The U.S. economy experienced growth during 2017, with increasing exports, jobs, and manufacturing production. Real GDP has increased, and unemployment is in line with a full-employment economy. However, if tighter financial conditions emerge, along with additional rate hikes by the Federal Reserve, there can be no assurance that the economy will not enter into another recession, whether in the near term or long term. An economic downturn or sustained, high unemployment levels, and stock market volatility may negatively impact our operating results and have a negative effect on the ability of our borrowers to make timely repayments of their loans increasing the risk of loan defaults and losses.

If Old National s actual loan losses exceed Old National s allowance for loan losses, Old National s net income will decrease.

Old National makes various assumptions and judgments about the collectibility of Old National s loan portfolio, including the creditworthiness of Old National s borrowers and the value of the real estate and other assets serving as collateral for the repayment of Old National s loans. Despite Old National s underwriting and monitoring practices, the effect of a declining economy could negatively impact the ability of Old National s borrowers to repay loans in a timely manner and could also negatively impact collateral values. As a result, Old National may experience significant loan losses that could have a material adverse effect on Old National s operating results. Since Old National must use assumptions regarding individual loans and the economy, Old National s current

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allowance for loan losses may not be sufficient to cover actual loan losses. Old National s assumptions may not anticipate the severity or duration of the current credit cycle; and Old National may need to significantly increase Old National s provision for losses on loans if one or more of Old National s larger loans or credit relationships becomes delinquent or if Old National expands its commercial real estate and commercial lending. In addition, federal and state regulators periodically review Old National s allowance for loan losses and may require Old National to increase the provision for loan losses or recognize loan charge-offs. Material additions to Old National s allowance would materially decrease Old National s net income. There can be no assurance that Old National s monitoring procedures and policies will reduce certain lending risks or that Old National s allowance for loan losses will be adequate to cover actual losses.

Old National s loan portfolio includes loans with a higher risk of loss.

Old National Bank originates commercial real estate loans, commercial loans, agricultural real estate loans, agricultural loans, consumer loans, and residential real estate loans primarily within Old National s market areas. Commercial real estate, commercial, consumer, and agricultural real estate and operating loans may expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans may not be sold as easily as residential real estate. These loans also have greater credit risk than residential real estate for the following reasons:

Commercial Real Estate Loans. Repayment is dependent upon income being generated in amounts sufficient to cover operating expenses and debt service.

Commercial Loans. Repayment is dependent upon the successful operation of the borrower s business.

Consumer Loans. Consumer loans (such as personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss.

Agricultural Loans. Repayment is dependent upon the successful operation of the business, which is greatly dependent on many things outside the control of either Old National Bank or the borrowers. These factors include weather, input costs, commodity and land prices, and interest rates.

Our wholesale funding sources may prove insufficient to replace deposits or support our future growth.

As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These sources include brokered certificates of deposit, repurchase agreements, and federal funds purchased. Negative operating results or changes in industry conditions could lead to an inability to replace these additional funding sources at maturity. Our financial flexibility could be constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our results of operations and financial condition would be negatively affected.

Our accounting estimates and risk management processes rely on analytical and forecasting models.

The processes that we use to estimate probable loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depend upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If our models for determining interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If our models for determining probable loan losses are inadequate, the allowance for loan losses may not be sufficient to support future charge-offs. If our models to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition, and results of operations.

If Old National forecloses on collateral property, Old National may be subject to the increased costs associated with the ownership of real property, resulting in reduced revenues.

Old National may have to foreclose on collateral property to protect Old National s investment and may thereafter own and operate such property, in which case Old National will be exposed to the risks inherent in the ownership of real estate. The amount that Old National, as a mortgagee, may realize after a default is dependent upon factors outside of Old National s control, including, but not limited to: (i) general or local economic conditions; (ii) neighborhood values; (iii) interest rates; (iv) real estate tax rates; (v) operating expenses of the mortgaged properties; (vi) environmental remediation liabilities; (vii) ability to obtain and maintain adequate occupancy of the properties; (viii) zoning laws; (ix) governmental rules, regulations and fiscal policies; and (x) acts of God. Certain expenditures associated with the ownership of real estate, principally real estate taxes, insurance, and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating real property may exceed the income earned from such property, and Old National may have to advance funds in order to protect Old National s investment, or Old National may be required to dispose of the real property at a loss. The foregoing expenditures and costs could adversely affect Old National s ability to generate revenues, resulting in reduced levels of profitability.

Old National operates in an extremely competitive market, and Old National s business will suffer if Old National is unable to compete effectively.

In our market area, Old National encounters significant competition from other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds, and other financial intermediaries. In addition, FinTech start-ups are emerging in key areas of banking. Our competitors may have substantially greater resources and lending limits than Old National does and may offer services that Old National does not or cannot provide. Many of our nonfinancial institution competitors have fewer regulatory constraints, broader geographic service areas, and, in some cases, lower cost structures. Old National s profitability depends upon Old National s continued ability to compete successfully in Old National s market area.

Our business could suffer if we fail to attract and retain skilled people.

Our success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities we engage in can be intense. We may not be able to hire the best people or to keep them. The loss of any of our key personnel or an inability to continue to attract, retain, and motivate key personnel could adversely affect our business.

We have risk related to legal proceedings.

We are involved in judicial, regulatory, and arbitration proceedings concerning matters arising from our business activities and fiduciary responsibilities. We establish reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. We may still incur legal costs for a matter even if we have not established a reserve. In addition, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. The ultimate resolution of a pending or future legal proceeding, depending on the remedy sought and granted, could materially adversely affect our results of operations and financial condition.

Risks Related to Old National s Stock

We may not be able to pay dividends in the future in accordance with past practice.

Old National has traditionally paid a quarterly dividend to common stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on Old National s earnings, capital requirements, financial condition, and other factors considered relevant by Old National s Board of Directors.

Old National is an entity separate and distinct from Old National Bank. Old National Bank conducts most of our operations and Old National depends upon dividends from Old National Bank to service its debt and to pay dividends to Old National s shareholders. The availability of dividends from Old National Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition including liquidity and

capital adequacy of Old National Bank and other factors, that the OCC could assert that the payment of dividends or other payments is an unsafe or unsound practice. In addition, the payment of dividends by our other subsidiaries is also subject to the laws of the subsidiary s state of incorporation, and regulatory capital and liquidity requirements applicable to such subsidiaries. At December 31, 2017, Old National Bank could pay dividends of $47.1 million without prior regulatory approval. In the event that Old National Bank was unable to pay dividends to us, we in turn would likely have to reduce or stop paying dividends on our Common Stock. Our failure to pay dividends on our Common Stock could have a material adverse effect on the market price of our Common Stock. See Business Supervision and Regulation Dividend Limitations and Note 24 to the consolidated financial statements.

The price of Old National s Common Stock may be volatile, which may result in losses for investors.

General market price declines or market volatility in the future could adversely affect the price of Old National s Common Stock. In addition, the following factors may cause the market price for shares of Old National s Common Stock to fluctuate:

- announcements of developments related to Old National s business;
- fluctuations in Old National s results of operations;
- sales or purchases of substantial amounts of Old National s securities in the marketplace;
- general conditions in Old National s banking niche or the worldwide economy;
- a shortfall or excess in revenues or earnings compared to securities analysts expectations;
- changes in analysts recommendations or projections; and
- Old National s announcement of new acquisitions or other projects.

As previously noted, the Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $10 billion or more in total assets, including compliance with portions of the Federal Reserve s enhanced prudential oversight requirements and annual stress testing requirements. Compliance with the annual stress testing requirements, part of which must be publicly disclosed, may also be negatively interpreted by the market generally or our customers and, as a result, may adversely affect our stock price or our ability to retain our customers or effectively compete for new business opportunities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2017, Old National and its affiliates operated a total of 191 banking centers, primarily in the states of Indiana, Kentucky, Michigan, Wisconsin, and Minnesota. Of these facilities, 120 were owned. We lease 71 banking centers from unaffiliated third parties. The terms of these leases range from two years and six months to twenty-five years. See Note 7 to the consolidated financial statements.

Impacting the number of Old National s banking centers in 2017 was the acquisition of Anchor (MN) (17 banking centers) and the consolidation of 29 banking centers throughout the franchise.

Old National also has several administrative offices located throughout its footprint, including the executive offices of Old National which are located at 1 Main Street, Evansville, Indiana. This building, which was previously leased, was purchased in 2016.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, Old National 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.

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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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Old National s Common Stock is traded on the NASDAQ under the ticker symbol ONB. The following table lists the high and low closing sales prices as reported by the NASDAQ, share volume, and dividend data for 2017 and 2016:

	Price Per Share		Share	Dividend
	High	Low	Volume	Declared
2017				
First Quarter	**$ 18.90**	**$ 16.60**	**44,867,619**	**$ 0.13**
Second Quarter	**17.60**	**15.80**	**59,583,275**	**0.13**
Third Quarter	**18.30**	**15.55**	**45,933,639**	**0.13**
Fourth Quarter	**18.75**	**16.90**	**48,719,404**	**0.13**
2016				
First Quarter	$ 13.18	$ 10.85	72,116,846	$ 0.13
Second Quarter	13.40	11.64	72,798,438	0.13
Third Quarter	14.16	12.08	48,908,322	0.13
Fourth Quarter	18.35	13.80	51,422,870	0.13

There were 43,684 shareholders of record as of December 31, 2017. Old National declared cash dividends of $0.52 per share during the years ended December 31, 2017 and 2016. Old National s ability to pay cash dividends depends primarily on cash dividends received from Old National Bank. Dividend payments from Old National Bank are subject to various regulatory restrictions. See Note 24 to the consolidated financial statements for additional information.

The following table summarizes the purchases of equity securities made by Old National during the fourth quarter of 2017:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/17 - 10/31/17	2,095	$ 18.55		
11/01/17 - 11/30/17	236	18.05		
12/01/17 - 12/31/17	53	18.25		
Total	2,384	$ 18.49		

The Board of Directors did not authorize a stock repurchase plan for 2017. During the twelve months ended December 31, 2017, Old National repurchased a limited number of shares associated with employee share-based incentive programs.

On January 25, 2018, the Board of Directors declared a quarterly cash dividend of $0.13 per common share. The Board of Directors did not authorize a stock repurchase plan for 2018.

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EQUITY COMPENSATION PLAN INFORMATION

The following table contains information concerning the 2008 Equity Incentive Plan approved by security holders, as of December 31, 2017.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,480,548	$ 13.67	4,766,750
Equity compensation plans not approved by security holders			
Total	1,480,548	$ 13.67	4,766,750

At December 31, 2017, 4.8 million shares remain available for issuance under the 2008 Equity Incentive Plan.

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The following table compares cumulative five-year total shareholder returns, assuming reinvestment of dividends, for our common stock to cumulative total returns of a broad-based equity market index and two published industry indices. The comparison of shareholder returns (change in December year end stock price plus reinvested dividends) for each of the periods assumes that $100 was invested on December 31, 2012, in common stock of each of the Company, the S&P Small Cap 600 Index, the NYSE Financial Index and the SNL Bank and Thrift Index with investment weighted on the basis of market capitalization.

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ITEM 6. SELECTED FINANCIAL DATA

(dollars in thousands, except per share data)	2017	2016	2015	2014	2013
Operating Results					
Net interest income	**$ 437,168**	$ 402,703	$ 366,116	$ 366,370	$ 317,424
Conversion to fully taxable equivalent (1)	**23,091**	21,293	19,543	16,999	16,876
Net interest income tax equivalent basis	**460,259**	423,996	385,659	383,369	334,300
Provision for loan losses	**3,050**	960	2,923	3,097	(2,319)
Noninterest income	**183,382**	252,830	230,632	165,129	184,758
Noninterest expense	**448,836**	454,147	430,932	386,438	361,984
Net income	**95,725**	134,264	116,716	103,667	100,920
Common Share Data (2)					
Weighted average diluted shares	**138,513**	128,301	116,255	108,365	101,198
Net income (diluted)	**$ 0.69**	$ 1.05	$ 1.00	$ 0.95	$ 1.00
Cash dividends	**0.52**	0.52	0.48	0.44	0.40
Common dividend payout ratio (3)	**75%**	50%	48%	46%	40%
Book value at year-end	**14.17**	$ 13.42	$ 13.05	$ 12.54	$ 11.64
Stock price at year-end	**17.45**	18.15	13.56	14.88	15.37
Balance Sheet Data (at December 31)					
Loans (4)	**$ 11,136,051**	$ 9,101,194	$ 6,962,215	$ 6,531,691	$ 5,090,669
Total assets	**17,518,292**	14,860,237	11,991,527	11,646,051	9,581,744
Deposits	**12,605,764**	10,743,253	8,400,860	8,490,664	7,210,903
Borrowings	**2,578,204**	2,152,086	1,920,246	1,469,911	1,018,720
Shareholders equity	**2,154,397**	1,814,417	1,491,170	1,465,764	1,162,640
Performance Ratios					
Return on average assets	**0.63%**	0.98%	0.98%	0.99%	1.05%
Return on average common shareholders equity	**4.98**	7.84	7.88	7.91	8.54
Net interest margin (5)	**3.48**	3.58	3.72	4.22	4.02
Efficiency ratio (5)	**68.87**	65.82	68.65	70.03	68.61
Asset Quality (6)					
Net charge-offs (recoveries) to average loans	**0.03%**	0.04%	(0.02)%	0.04%	0.10%
Allowance for loan losses to ending loans	**0.45**	0.55	0.75	0.76	0.93
Allowance for loan losses	**$ 50,381**	$ 49,808	$ 52,233	$ 47,849	$ 47,145
Underperforming assets (7)	**154,220**	164,657	160,072	170,535	165,656
Allowance for loan losses to nonaccrual loans (8)	**40.33%**	37.90%	39.46%	33.97%	36.71%
Other Data					
Full-time equivalent employees	**2,801**	2,733	2,652	2,938	2,608
Banking centers	**191**	203	160	195	169

(1) Calculated using the federal statutory tax rate in effect of 35% for all periods.
(2) Diluted data assumes the exercise of stock options and the vesting of restricted stock.
(3) Cash dividends per share divided by net income per share (basic).
(4) Includes loans held for sale.

(5) Represents a non-GAAP financial measure. Refer to the Non-GAAP Financial Measures section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for reconciliations to GAAP financial measures.

(6) Excludes loans held for sale.

(7) Includes nonaccrual loans, renegotiated loans, loans 90 days past due still accruing and other real estate owned. Includes $12.4 million, $24.4 million, and $45.5 million of covered assets in 2015, 2014, and 2013, respectively, acquired in an FDIC assisted transaction, which were covered by loss sharing agreements with the FDIC providing for specified loss protection. On June 22, 2016, Old National entered into an early termination agreement with the FDIC that terminated all loss share agreements.

(8) Includes approximately $12.6 million, $16.7 million, $15.9 million, $41.2 million, and $38.3 million for 2017, 2016, 2015, 2014, and 2013, respectively, of purchased credit impaired loans 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.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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The following discussion is an analysis of our results of operations for the fiscal years ended December 31, 2017, 2016, and 2015, and financial condition as of December 31, 2017 and 2016. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business. Readers are cautioned that, by their nature, forward-looking statements are based on estimates and assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from our expectations that are expressed or implied by any forward-looking statement. The discussion in Item 1A, Risk Factors, lists some of the factors that could cause our actual results to vary materially from those expressed or implied by any forward-looking statements, and such discussion is incorporated into this discussion by reference.

GENERAL OVERVIEW

Old National is the largest financial holding company incorporated in the state of Indiana and maintains its principal executive offices in Evansville, Indiana. Old National, through Old National Bank, provides a wide range of services, including commercial and consumer loan and depository services, and other traditional banking services. Old National also provides services to supplement the traditional banking business including fiduciary and wealth management services, investment and brokerage services, investment consulting, and other financial services.

Our basic mission is to be THE community bank in the cities and towns we serve. We focus on establishing and maintaining long-term relationships with customers, and are committed to serving the financial needs of the communities in our market area. Old National provides financial services primarily in Indiana, Kentucky, Michigan, Wisconsin, and Minnesota.

CORPORATE DEVELOPMENTS IN FISCAL 2017

In 2017, we expanded our footprint into the state of Minnesota through our acquisition of Anchor (MN). In addition to our entry into this new market, management remained keenly focused on organic growth and efficiency efforts. This is evidenced by the following 2017 highlights:

- organic loan growth of almost 5% (including loans held for sale), organic commercial and commercial real estate loan growth of 10%;
- cost of total deposits increased just two basis points to 0.19%;
- credit quality metrics remain strong, with net charge-offs to average loans of 0.03%;
- noninterest expenses remained well controlled, decreasing to $448.8 million; and
- the on-going assessment of our service and delivery network, resulting in the consolidation of 29 banking centers in 2017.

Net interest income increased to $437.2 million, or 9%, from $402.7 million in 2016 and noninterest expenses remained well controlled, decreasing to $448.8 million from $454.1 million in 2016. Noninterest income decreased to

$183.4 million in 2017 from $252.8 million in 2016 primarily due to a $41.9 million gain and lower insurance premiums and commissions in 2016 resulting from the sale of ONI in May 2016, partially offset by higher wealth management fees, investment product fees, and capital markets income in 2017. Net income for 2017 was $95.7 million, compared to 2016 net income of $134.3 million. Diluted earnings per share were $0.69 per share in 2017, compared to $1.05 per share in 2016. Net income in 2017 included $39.3 million of additional tax expense recorded in December 2017 to estimate the revaluation of Old National s deferred tax assets due to the lowering of the federal corporate tax rate to 21%.

BUSINESS OUTLOOK

The U.S. economy experienced growth during 2017, with increasing exports, jobs, and manufacturing production. Real GDP has increased, and unemployment is in line with a full-employment economy. Short-term interest rates increased 75 basis points in 2017 as the Federal Reserve increased the discount rate 25 basis points at their March, June, and December meetings. The rate increases were driven by the Federal Reserve s inflation and wage pressure expectations in conjunction with a moderately expanding economy. Additional rate increases in 2018 will benefit Old National as our assets tend to re-price faster and with more margin than our liabilities. In addition, Old National s dominant market share in many of the communities in which we serve will become more valuable as deposits typically cost less than other types of funding. Of note, while many short-term rates (i.e., Federal Funds, LIBOR, and Prime) are now hovering near decade highs, while the yield curve itself remains stubbornly flat (e.g. key yield curve spreads are near decade lows) a dichotomy that we continue to monitor for its implications to both the U.S. economy and our balance sheet positioning.

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In the regulatory environment, we note several key appointments were either confirmed or announced in 2017 and early 2018, including new heads of the Federal Reserve, OCC, FDIC, CFPB, and SEC. The impact of these changes is expected to have the most direct impact on our larger bank competitors. However, we believe there will be a shift in regulatory approach that is a compromise between a size-based and a principles-based approach.

Our focus for 2018 remains basic banking loan growth, fee-based income, and expense management.

The impact of the tax reform bill will have a positive two-fold impact for Old National. First for our clients as an expected uptick in technology investments, inventory expansion, and other capital expenditures resulting in loan growth and second, for our shareholders, in the way of increased earnings as a result of reduced corporate taxes that management will evaluate using a longer time horizon. This anticipated loan growth will be supported by the strength of our low-cost core deposit franchise. While we do not see any major adverse cyclical shifts in our loan portfolios, we will remain diligent to our risk profile and underwriting standards.

Our fee-based business continues to take advantage of the rising market and strong sales production. We expect this trend to continue and further build out these fee-based product sets in our Minnesota market.

We will continue to invest and focus on improving the client experience and reducing our operating cost at the same time by enhancing technology and processes. As we adapt to changing customer behaviors, we will continue to evaluate our franchise for additional consolidation opportunities in 2018.

Our appetite for future partnerships is such that we remain an active looker and a selective, disciplined buyer. We believe our ability to bring a larger balance sheet with better capital and an enhanced product set allows a potential new market partner to better serve their clients. However, given the quality Old National franchise that exists today, we do not feel compelled to enter into a partnership.

We remain optimistic as we look ahead to 2018 given the strength of our franchise and remain diligent on growing our pretax pre-provisioned income as well as continuing our expense discipline. We are reaffirming our commitment to driving and sustaining positive operating leverage.

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FINANCIAL HIGHLIGHTS

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

(dollars and shares in thousands, except per share data)	Three Months Ended December 31, 2017	September 30, 2017	December 31, 2016	Years Ended December 31, 2017	2016
Income Statement:					
Net interest income	**$ 118,556**	$ 108,478	$ 109,917	**$ 437,168**	$ 402,703
Taxable equivalent adjustment (1)	**6,139**	5,621	5,506	**23,091**	21,293
Provision for loan losses	**1,037**	311	(1,756)	**3,050**	960
Noninterest income	**44,825**	46,366	62,751	**183,382**	252,830
Noninterest expense	**140,432**	103,702	126,258	**448,836**	454,147
Net income (loss)	**(18,493)**	39,372	33,456	**95,725**	134,264
Common Share Data:					
Weighted average diluted shares	**146,875**	135,796	135,383	**138,513**	128,301
Net income (loss) (diluted)	**$ (0.13)**	$ 0.29	$ 0.25	**$ 0.69**	$ 1.05
Cash dividends	**0.13**	0.13	0.13	**$ 0.52**	$ 0.52
Common dividend payout ratio (2)	**N/M**	43%	52%	**75%**	50%
Book value	**$ 14.17**	$ 14.07	$ 13.42	**$ 14.17**	$ 13.42
Stock price	**17.45**	18.30	18.15	**17.45**	18.15
Tangible common book value (3)	**8.37**	9.02	8.30	**8.37**	8.30
Performance Ratios:					
Return on average assets	**(0.45)%**	1.05%	0.91%	**0.63%**	0.98%
Return on average common equity	**(3.51)**	8.31	7.33	**4.98**	7.84
Return on tangible common equity (3)	**(5.12)**	13.44	12.68	**8.12**	12.69
Return on average tangible common equity (3)	**(5.05)**	13.58	12.57	**8.59**	13.73
Net interest margin (3)	**3.47**	3.52	3.63	**3.48**	3.58
Efficiency ratio (3)	**81.60**	64.17	69.53	**68.87**	65.82
Net charge-offs (recoveries) to average loans	**0.03**	0.05		**0.03**	0.04
Allowance for loan losses to ending loans	**0.45**	0.53	0.55	**0.45**	0.55
Non-performing loans to ending loans	**1.30**	1.46	1.62	**1.30**	1.62
Balance Sheet:					
Total loans	**$ 11,118,121**	$ 9,398,124	$ 9,010,512	**$ 11,118,121**	$ 9,010,512

Total assets	**17,518,292**	15,065,800	$ 14,860,237	**17,518,292**	14,860,237
Total deposits	**12,605,764**	10,606,784	10,743,253	**12,605,764**	10,743,253
Total borrowed funds	**2,578,204**	2,411,111	2,152,086	**2,578,204**	2,152,086
Total shareholders equity	**2,154,397**	1,906,823	1,814,417	**2,154,397**	1,814,417
Nonfinancial Data:					
Full-time equivalent employees	**2,801**	2,592	2,733	**2,801**	2,733
Banking centers	**191**	188	203	**191**	203

N/M = Not meaningful

(1) Calculated using the federal statutory tax rate in effect of 35% for all periods.
(2) Cash dividends per share divided by net income per share (basic).
(3) Represents a non-GAAP financial measure. Refer to the Non-GAAP Financial Measures section for reconciliations to GAAP financial measures.

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NON-GAAP FINANCIAL MEASURES

Non-GAAP financial measures exclude certain items that are included in the financial results presented in accordance with GAAP. Management believes these non-GAAP financial measures enhance an investor s understanding of the financial results of Old National by providing a meaningful basis for period-to-period comparisons, assisting in operating results analysis, and predicting future performance.

The following table presents GAAP to non-GAAP reconciliations.

(dollars and shares in thousands, except per share data)	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Years Ended December 31, 2017	Years Ended December 31, 2016
Tangible common book value:				
Shareholders equity (GAAP)	**$ 2,154,397**	$ 1,814,417	**$ 2,154,397**	$ 1,814,417
Deduct: Goodwill	**828,051**	655,018	**828,051**	655,018
Intangible assets	**53,096**	37,677	**53,096**	37,677
Tangible shareholders equity (non-GAAP)	**$ 1,273,250**	$ 1,121,722	**$ 1,273,250**	$ 1,121,722
Period end common shares	**152,040**	135,159	**152,040**	135,159
Tangible common book value	**8.37**	8.30	**8.37**	8.30
Return on tangible common equity:				
Net income (GAAP)	**$ (18,493)**	$ 33,456	**$ 95,725**	$ 134,264
Add: Intangible amortization (net of tax)	**2,210**	2,107	**7,697**	8,116
Tangible net income (non-GAAP)	**$ (16,283)**	$ 35,563	**$ 103,422**	$ 142,380
Tangible shareholders equity (non-GAAP) (see above)	**$ 1,273,250**	$ 1,121,722	**$ 1,273,250**	$ 1,121,722
Return on tangible common equity	**(5.12)%**	12.68%	**8.12%**	12.69%
Return on average tangible common equity:				
Tangible net income (non-GAAP) (see above)	**$ (16,283)**	$ 35,563	**$ 103,422**	$ 142,380
Average shareholders equity (GAAP)	**$ 2,104,646**	$ 1,825,993	**$ 1,923,645**	$ 1,712,574
Deduct: Average goodwill	**776,862**	655,041	**685,729**	635,440
Average intangible assets	37,802	39,239	34,392	40,317
Average tangible shareholders equity (non-GAAP)	**$ 1,289,982**	$ 1,131,713	**$ 1,203,524**	$ 1,036,817
Return on average tangible common equity	**(5.05)%**	12.57%	**8.59%**	13.73%
Net interest margin:				
Net interest income (GAAP)	**$ 118,556**	$ 109,917	**$ 437,168**	$ 402,703
Taxable equivalent adjustment	**6,139**	5,506	**23,091**	21,293

Net interest income - taxable equivalent basis (non-GAAP)	**$ 124,695**	$ 115,423	**$ 460,259**	$ 423,996
Average earning assets	**$ 14,389,502**	$ 12,713,345	**$ 13,237,906**	$ 11,840,967
Net interest margin	**3.47%**	3.63%	**3.48%**	3.58%
Efficiency ratio:				
Noninterest expense (GAAP)	**$ 140,432**	$ 126,258	**$ 448,836**	$ 454,147
Deduct: Intangible amortization expense	**3,399**	3,241	**11,841**	12,486
Adjusted noninterest expense (non-GAAP)	**$ 137,033**	$ 123,017	**$ 436,995**	$ 441,661
Net interest income - taxable equivalent basis (non-GAAP) (see above)	**$ 124,695**	$ 115,423	**$ 460,259**	$ 423,996
Noninterest income	**44,825**	62,751	**183,382**	252,830
Deduct: Net securities gains (losses)	**1,588**	1,239	**9,135**	5,848
Adjusted total revenue (non-GAAP)	**$ 167,932**	$ 176,935	**$ 634,506**	$ 670,978
Efficiency ratio	**81.60%**	69.53%	**68.87%**	65.82%

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Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. These non-GAAP measures are not necessarily comparable to similar measures that may be represented by other companies.

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the years ended December 31, 2017, 2016, and 2015:

	Years Ended December 31,		
(dollars in thousands)	**2017**	**2016**	**2015**
Income Statement Summary:			
Net interest income	**$ 437,168**	$ 402,703	$ 366,116
Provision for loan losses	**3,050**	960	2,923
Noninterest income	**183,382**	252,830	230,632
Noninterest expense	**448,836**	454,147	430,932
Other Data:			
Return on average common equity	**4.98%**	7.84%	7.88%
Return on tangible common equity (1)	**8.12%**	12.69%	14.27%
Return on average tangible common equity (1)	**8.59%**	13.73%	14.57%
Efficiency ratio (1)	**68.87%**	65.82%	68.65%
Tier 1 leverage ratio	**8.27%**	8.43%	8.54%
Net charge-offs (recoveries) to average loans	**0.03%**	0.04%	(0.02)%

(1) Represents a non-GAAP financial measure. Refer to Non-GAAP Financial Measures section for reconciliations to GAAP financial measures.

Comparison of Fiscal Years 2017 and 2016

Net Interest Income

Net interest income is the most significant component of our earnings, comprising 70% of 2017 revenues. 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 75 basis points in 2017 as the Federal Reserve increased the discount rate 25 basis points at their March, June, and December meetings. The rate increases were driven by the Federal Reserve 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. 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 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.

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(dollars in thousands)	Years Ended December 31, 2017	2016	2015
Net interest income	**$ 437,168**	$ 402,703	$ 366,116
Conversion to fully taxable equivalent	**23,091**	21,293	19,543
Net interest income - taxable equivalent basis	**$ 460,259**	$ 423,996	$ 385,659
Average earning assets	**$ 13,237,906**	$ 11,840,967	$ 10,363,098
Net interest margin	**3.30%**	3.40%	3.53%
Net interest margin - taxable equivalent basis	**3.48%**	3.58%	3.72%

Net interest income was $437.2 million in 2017, a $34.5 million increase from $402.7 million in 2016. Taxable equivalent net interest income was $460.3 million in 2017, a 9% increase from $424.0 million in 2016. The net interest margin on a fully taxable equivalent basis was 3.48% in 2017, a 10 basis point decrease compared to 3.58% in 2016. The increase in net interest income in 2017 when compared to 2016 was primarily due to higher average earning assets of $1.397 billion in 2017. Partially offsetting higher average earning assets were higher average interest bearing liabilities of $1.160 billion and a decrease in accretion income of $17.3 million. Net interest income in both 2017 and 2016 included accretion income (interest income in excess of contractual interest income) associated with acquired loans. Accretion income totaled $40.8 million in 2017, compared to $58.1 million in 2016. We expect accretion income on our PCI loans to decrease over time, but this may be offset by future acquisitions.

With the new 21% statutory federal tax rate, the conversion factor to a fully taxable equivalent basis will decrease in 2018. The decline will have no impact on net income, but will cause the net interest margin on a fully taxable equivalent basis to decrease approximately 9 basis points in 2018.

The following table presents a three-year average balance sheet and for each major asset and liability category, its related interest income and yield, or its expense and rate for the years ended December 31.

(tax equivalent basis, dollars in thousands)	2017 Average Balance	2017 Income/ Expense	2017 Yield/ Rate	2016 Average Balance	2016 Income/ Expense	2016 Yield/ Rate	2015 Average Balance	2015 Income/ Expense	2015 Yield/ Rate
Earning Assets									
Money market and other interest-earning investments (1)	**$ 35,584**	**$ 258**	**0.72%**	$ 32,697	$ 130	0.40%	$ 43,383	$ 47	0.11%
Investment securities: (2) U.S. Treasury & government-sponsored agencies (3)	**2,085,317**	**42,235**	**2.03**	1,968,408	37,381	1.90	1,967,293	36,725	1.87
States and political subdivisions (4)	**1,134,532**	**53,359**	**4.70**	1,125,713	53,003	4.71	1,023,983	49,162	4.80
Other securities	**450,127**	**11,863**	**2.64**	438,832	10,391	2.37	444,520	10,903	2.45
Total investment securities	**3,669,976**	**107,457**	**2.93**	3,532,953	100,775	2.85	3,435,796	96,790	2.82
Loans (including loans held for sale): (5)									
Commercial (4)	**2,083,779**	**85,747**	**4.11**	1,835,317	70,591	3.85	1,754,141	75,900	4.33
Commercial real estate	**3,426,757**	**171,483**	**5.00**	2,648,911	150,592	5.69	1,862,055	118,237	6.35
Residential real estate	**2,146,279**	**85,340**	**3.98**	1,995,060	80,963	4.06	1,712,636	70,908	4.14
Consumer	**1,875,531**	**68,142**	**3.63**	1,796,029	65,376	3.64	1,555,087	56,850	3.66
Total loans	**9,532,346**	**410,712**	**4.31**	8,275,317	367,522	4.44	6,883,919	321,895	4.68
Total earning assets	**13,237,906**	**$ 518,427**	**3.92%**	11,840,967	$ 468,427	3.96%	10,363,098	$ 418,732	4.04%
Less: Allowance for loan losses	**(50,845)**			(52,215)			(50,538)		
Non-Earning Assets									
Cash and due from banks	**207,677**			192,401			163,275		
Other assets	**1,907,963**			1,661,200			1,451,125		
Total assets	**$ 15,302,701**			$ 13,642,353			$ 11,926,960		
Interest-Bearing Liabilities									
NOW deposits	**2,676,760**	**$ 2,224**	**0.08%**	$ 2,389,143	$ 1,529	0.06%	$ 2,160,019	$ 758	0.04%
Savings deposits	**2,964,875**	**4,980**	**0.17**	2,595,622	3,723	0.14	2,299,357	3,199	0.14
	762,540	**831**	**0.11**	763,909	840	0.11	677,414	577	0.09

Money market deposits									
Time deposits	**1,487,077**	**12,321**	**0.83**	1,361,647	11,191	0.82	1,063,782	9,634	0.91
Total interest-bearing deposits	**7,891,252**	**20,356**	**0.26**	7,110,321	17,283	0.24	6,200,572	14,168	0.23
Federal funds purchased and interbank borrowings	**187,426**	**1,966**	**1.05**	137,997	673	0.49	126,124	265	0.21
Securities sold under agreements to repurchase	**336,539**	**1,270**	**0.38**	368,757	1,509	0.41	406,117	1,488	0.37
Federal Home Loan Bank advances	**1,481,314**	**24,818**	**1.68**	1,121,413	15,547	1.39	793,703	8,122	1.02
Other borrowings	**224,793**	**9,758**	**4.34**	222,708	9,419	4.23	217,978	9,030	4.14
Total interest-bearing liabilities	**$ 10,121,324**	**$ 58,168**	**0.57%**	$ 8,961,196	$ 44,431	0.50%	$ 7,744,494	$ 33,073	0.43%
Noninterest-Bearing Liabilities									
Demand deposits	**3,111,672**			2,776,140			2,500,571		
Other liabilities	**146,060**			192,443			200,994		
Shareholders equity	**1,923,645**			1,712,574			1,480,901		
Total liabilities and shareholders equity	**$ 15,302,701**			$ 13,642,353			$ 11,926,960		
Interest Margin Recap									
Interest income/average earning assets		**$ 518,427**	**3.92%**		$ 468,427	3.96%		$ 418,732	4.04%
Interest expense/average earning assets		**58,168**	**0.44**		44,431	0.38		33,073	0.32
Net interest income and margin		**$ 460,259**	**3.48%**		$ 423,996	3.58%		$ 385,659	3.72%

(1) The 2017, 2016, and 2015 average balances include $21.2 million, $24.8 million, and $35.2 million, respectively, of required and excess balances held at the Federal Reserve.

(2) Changes in fair value are reflected in the average balance; however, yield information does not give effect to changes in fair value that are reflected as a component of shareholders equity.

(3) Includes U.S. government-sponsored entities and agency mortgage-backed securities at December 31, 2017.

(4) Interest on state and political subdivision investment securities and commercial loans includes the effect of taxable equivalent adjustments of $15.6 million and $7.5 million, respectively, in 2017; $15.2 million and $6.1 million, respectively, in 2016; and $13.7 million and $5.9 million, respectively, in 2015; using the federal

statutory tax rate in effect of 35% for all periods.

(5) Includes principal balances of nonaccrual loans. Interest income relating to nonaccrual loans is included only if received.

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The yield on average earning assets decreased 4 basis points from 3.96% in 2016 to 3.92% in 2017 and the cost of interest-bearing liabilities increased 7 basis points from 0.50% in 2016 to 0.57% in 2017. Average earning assets increased by $1.397 billion, or 12%. The increase in average earning assets consisted of a $1.257 billion increase in loans, a $137.0 million increase in lower yielding investment securities, and a $2.9 million increase in money market and other interest-earning investments. Average interest-bearing liabilities increased $1.160 billion, or 13%. The increase in average interest-bearing liabilities consisted of a $780.9 million increase in interest-bearing deposits, a $49.4 million increase in federal funds purchased and interbank borrowings, a $359.9 million increase in FHLB advances, and a $2.1 million increase in other borrowings, partially offset by a $32.2 million decrease in securities sold under agreements to repurchase. Average noninterest-bearing deposits increased by $335.5 million.

The increase in average earning assets in 2017 compared to 2016 was primarily due to our acquisitions of Anchor (WI) in May 2016 and Anchor (MN) in November 2017. Including loans held for sale, the loan portfolio, which generally has an average yield higher than the investment portfolio, was approximately 72% of average interest earning assets in 2017 compared to 70% in 2016.

Average loans including loans held for sale increased $1.257 billion in 2017 compared to 2016 reflecting loans acquired from Anchor (WI) in May 2016 and Anchor (MN) in November 2017, along with $377.3 million of average organic loan growth. Loans including loans held for sale attributable to the Anchor (WI) acquisition totaled $1.647 billion as of the closing date of the acquisition, which was May 1, 2016. Loans including loans held for sale attributable to the Anchor (MN) acquisition totaled $1.595 billion as of the closing date of the acquisition, which was November 1, 2017.

The increases in average investments and average deposits also reflected the Anchor (WI) and Anchor (MN) acquisitions.

Average non-interest bearing deposits increased $335.5 million in 2017 compared to 2016 reflecting the Anchor (WI) and Anchor (MN) acquisitions. Average interest bearing deposits increased $780.9 million in 2017 compared to 2016 reflecting the Anchor (WI) and Anchor (MN) acquisitions.

Average borrowed funds increased $379.2 million in 2017 compared to 2016 primarily due to increased funding needed as a result of growth in our loan portfolio that outpaced deposit growth.

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The following table shows fluctuations 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 years ended December 31.

	From 2016 to 2017			From 2015 to 2016		
	Total	Attributed to		Total	Attributed to	
(dollars in thousands)	Change	Volume	Rate	Change	Volume	Rate
Interest Income						
Money market and other interest-earning investments	**$ 128**	**$ 16**	**$ 112**	$ 83	$ (27)	$ 110
Investment securities (1)	**6,682**	**3,960**	**2,722**	3,985	2,754	1,231
Loans (1)	**43,190**	**54,994**	**(11,804)**	45,627	63,428	(17,801)
Total interest income	**50,000**	**58,970**	**(8,970)**	49,695	66,155	(16,460)
Interest Expense						
NOW deposits	**695**	**212**	**483**	771	114	657
Savings deposits	**1,257**	**575**	**682**	524	419	105
Money market deposits	**(9)**	**(1)**	**(8)**	263	84	179
Time deposits	**1,130**	**1,035**	**95**	1,557	2,572	(1,015)
Federal funds purchased and interbank borrowings	**1,293**	**380**	**913**	408	41	367
Securities sold under agreements to repurchase	**(239)**	**(127)**	**(112)**	21	(145)	166
Federal Home Loan Bank advances	**9,271**	**5,510**	**3,761**	7,425	3,948	3,477
Other borrowings	**339**	**89**	**250**	389	198	191
Total interest expense	**13,737**	**7,673**	**6,064**	11,358	7,231	4,127
Net interest income	**$ 36,263**	**$ 51,297**	**$ (15,034)**	$ 38,337	$ 58,924	$ (20,587)

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 $15.6 million and $7.5 million, respectively, in 2017; $15.2 million and $6.2 million, respectively, in 2016; and $13.7 million and $5.9 million, respectively, in 2015; using the federal statutory rate in effect of 35% for all periods.

Provision for Loan Losses

The provision for loan losses was an expense of $3.1 million in 2017, compared to an expense of $1.0 million in 2016. Net charge-offs totaled $2.5 million in 2017, compared to net charge-offs of $3.4 million in 2016. The higher provision for loan losses is the result of a change in specific allocations on impaired loans. 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. For additional information about non-performing loans, charge-offs, and additional items impacting the provision, refer to the Risk Management Credit Risk section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

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. This source of revenue as a percentage of total revenue was 30% in 2017 compared to 39% in 2016.

The following table details the components of noninterest income for the years ended December 31.

(dollars in thousands)	Years Ended December 31, 2017	2016	2015	% Change From Prior Year 2017	2016
Wealth management fees	**$ 37,316**	$ 34,641	$ 34,395	**7.7%**	0.7%
Service charges on deposit accounts	**41,331**	41,578	43,372	**(0.6)**	(4.1)
Debit card and ATM fees	**17,676**	16,769	21,340	**5.4**	(21.4)
Mortgage banking revenue	**18,449**	20,240	12,540	**(8.8)**	61.4
Insurance premiums and commissions	**617**	20,527	42,714	**(97.0)**	(51.9)
Investment product fees	**20,977**	18,822	17,924	**11.4**	5.0
Capital markets income	**6,544**	3,227	1,082	**102.8**	198.2
Company-owned life insurance	**8,654**	8,479	8,604	**2.1**	(1.5)
Net securities gains (losses)	**9,135**	5,848	5,718	**56.2**	2.3
Recognition of deferred gain on sale leaseback transactions	**2,080**	16,057	16,444	**(87.0)**	(2.4)
Gain on sale of ONB Insurance Group, Inc.		41,864		**(100.0)**	N/M
Net gain on branch divestitures			15,627	**N/M**	(100.0)
Change in FDIC indemnification asset		233	(9,034)	**(100.0)**	(102.6)
Other income	**20,603**	24,545	19,906	**(16.1)**	23.3
Total noninterest income	**$ 183,382**	$ 252,830	$ 230,632	**(27.5)%**	9.6%
Noninterest income to total revenue (1)	**28.5%**	37.4%	37.4%		

(1) Total revenue includes the effect of a taxable equivalent adjustment of $23.1 million in 2017, $21.3 million in 2016, and $19.5 million in 2015.

N/M = Not meaningful

The decrease in noninterest income in 2017 when compared to 2016 was primarily due to a pre-tax gain of $41.9 million resulting from the sale of ONI in May 2016, lower insurance premiums and commissions, and lower recognition of deferred gain on sale leaseback transactions.

Wealth management fees increased $2.7 million in 2017 compared to 2016 reflecting market appreciation and strong sales production.

Service charges and overdraft fees decreased $0.2 million in 2017 compared to 2016 primarily due to lower overdraft charges, partially offset by higher service charges and overdraft fees attributable to the Anchor (WI) and Anchor (MN) acquisitions.

Mortgage banking revenue decreased $1.8 million in 2017 compared to 2016 primarily due to the industry-wide reduction in refinance activity and higher interest rates in 2017.

Insurance premiums and commissions decreased $19.9 million in 2017 reflecting the sale of ONI in May 2016.

Investment product fees increased $2.2 million in 2017 compared to 2016 primarily due to higher investment product fees attributable to the Anchor (WI) and Anchor (MN) acquisitions.

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 $3.3 million in 2017 compared to 2016 primarily due to higher customer interest rate swap fees resulting from strong commercial loan production during 2017.

Net securities gains increased $3.3 million in 2017 compared to 2016 primarily due to higher realized gains on sales of available-for-sale securities in 2017.

Recognition of deferred gain on sale leaseback transactions decreased $14.0 million in 2017 compared to 2016. Old National purchased 23 properties during 2016 that it had previously leased, resulting in the recognition of approximately $12.0 million of pre-tax deferred gains.

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In 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 $3.9 million in 2017 when compared to 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 $4.0 million in 2017, compared to $7.6 million in 2016.

Noninterest Expense

The following table details the components of noninterest expense for the years ended December 31.

	Years Ended December 31,			% Change From Prior Year	
(dollars in thousands)	**2017**	**2016**	**2015**	**2017**	**2016**
Salaries and employee benefits	**$ 246,738**	$ 252,892	$ 243,875	**(2.4)%**	3.7%
Occupancy	**46,511**	50,947	53,239	**(8.7)**	(4.3)
Equipment	**13,560**	13,448	13,183	**0.8**	2.0
Marketing	**13,172**	14,620	10,410	**(9.9)**	40.4
Data processing	**32,306**	32,002	27,309	**0.9**	17.2
Communication	**9,284**	9,959	9,586	**(6.8)**	3.9
Professional fees	**16,840**	15,705	11,756	**7.2**	33.6
Loan expense	**6,596**	7,632	6,373	**(13.6)**	19.8
Supplies	**2,406**	2,865	2,275	**(16.0)**	25.9
FDIC assessment	**9,480**	8,681	7,503	**9.2**	15.7
Other real estate owned expense	**3,376**	4,195	2,703	**(19.5)**	55.2
Amortization of intangibles	**11,841**	12,486	11,746	**(5.2)**	6.3
Amortization of tax credit investments	**11,733**			**N/M**	N/M
Other expense	**24,993**	28,715	30,974	**(13.0)**	(7.3)
Total noninterest expense	**$ 448,836**	$ 454,147	$ 430,932	**(1.2)%**	5.4%

N/M = Not meaningful

Noninterest expense decreased $5.3 million in 2017 when compared to 2016 primarily due to the reduction of costs associated with the divestiture of ONI in May 2016. Offsetting these decreases was $11.7 million of amortization of tax credit investments in 2017. In addition, noninterest expense in 2017 included $12.3 million of acquisition and integration costs associated with Anchor (MN), compared to $15.9 million in 2016 of acquisition and integration costs associated with Anchor (WI).

Salaries and benefits is the largest component of noninterest expense. Salaries and benefits decreased $6.2 million in 2017 compared to 2016. Impacting salaries and benefits expense were the acquisitions of Anchor (WI) and Anchor (MN), and the divestiture of ONI described above. Also contributing to the decrease in salaries and benefits were lower pension expenses of $11.9 million in 2017 reflecting the termination of Old National s Retirement Plan effective May 15, 2016. The decreases were partially offset by higher incentive compensation in 2017.

Occupancy expenses decreased $4.4 million in 2017 compared to 2016 primarily due to 29 banking center consolidations in 2017. The decrease was partially offset by higher occupancy expenses attributable to the Anchor (WI) and Anchor (MN) acquisitions.

Marketing expense decreased $1.4 million in 2017 compared to 2016 primarily due to lower public relations expense.

Professional fees increased $1.1 million in 2017 compared to 2016 primarily due to $3.5 million in pre-tax expenses recorded in 2017 related to a client-experience improvement initiative currently in process at Old National. Upon completion of this initiative, Old National expects the costs incurred to considerably improve how we serve our clients and increase efficiency in 2018. The increase was partially offset by lower professional fees related to acquisition and integration costs associated with Anchor (WI).

Amortization of tax credit investments was $11.7 million in 2017 reflecting the completion of several investment tax credit projects during the fourth quarter of 2017. There was no amortization related to tax credit investments recorded in noninterest expense in 2016. See Note 16 to the consolidated financial statements for additional information on our tax credit investments.

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Other expense decreased $3.7 million in 2017 compared to 2016 primarily due to lower charitable contributions of $2.7 million and lower impairments of long-lived assets of $1.6 million.

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 effective tax rate was 43.3% in 2017 compared to 33.0% in 2016. The higher effective tax rate in 2017 when compared to 2016 is the result of $39.3 million of additional tax expense to estimate the revaluation of deferred tax assets due to the lowering of the federal corporate tax rate to 21%, partially offset by an increase in federal tax credits available. See Note 16 to the consolidated financial statements for additional details on Old National s income tax provision.

Comparison of Fiscal Years 2016 and 2015

In 2016, we generated net income of $134.3 million and diluted net income per share of $1.05 compared to $116.7 million and diluted net income per share of $1.00, respectively, in 2015. The 2016 earnings included a $36.6 million increase in net interest income, a $1.9 million decrease in provision for loan losses, and a $22.2 million increase in noninterest income. These increases to net income were partially offset by a $23.2 million increase in noninterest expense and a $20.0 million increase in income tax expense. The successful conversion and integration of our acquisition of Anchor (WI) in 2016, strong loan growth, and consistently low credit metrics all contributed to positive 2016 performance when compared to 2015.

Net interest income was $402.7 million in 2016, a $36.6 million increase from $366.1 million in 2015. Taxable equivalent net interest income was $424.0 million in 2016, a 10% increase from $385.7 million in 2015. The net interest margin on a fully taxable equivalent basis was 3.58% in 2016, a 14 basis point decrease compared to 3.72% in 2015. Average earning assets increased by $1.478 billion during 2016 and the yield on average earning assets decreased 8 basis points from 4.04% in 2015 to 3.96% in 2016. Average interest-bearing liabilities increased $1.217 billion and the cost of interest-bearing liabilities increased from 0.43% in 2015 to 0.50% in 2016.

The provision for loan losses was an expense of $1.0 million in 2016, compared to an expense of $2.9 million in 2015. Charge-offs remained low during 2016 and we continued to see positive trends in credit quality.

Noninterest income was $252.8 million in 2016, an increase of $22.2 million, or 10%, compared to $230.6 million in 2015. The increase in noninterest income in 2016 was primarily due to a pre-tax gain of $41.9 million resulting from the sale of ONI in May 2016 and noninterest income attributable to the Anchor (WI) acquisition. The increase in noninterest income was partially offset by a $15.6 million gain on branch divestitures in the third quarter of 2015 and lower insurance premiums and commissions resulting from the sale on ONI.

Noninterest expense totaled $454.1 million in 2016, an increase of $23.2 million, or 5%, from $430.9 million in 2015. Noninterest expense during 2016 was impacted by our transition into the higher growth markets in Wisconsin, the divestitures of our Illinois franchise and our insurance business, and other branch restructuring during 2015. Also contributing to the increase in noninterest expense was a pension plan settlement loss of $9.8 million resulting from the termination of the Employee Retirement Plan in 2016.

The provision for income taxes was $66.2 million in 2016 compared to $46.2 million in 2015. Old National s effective tax rate was 33.0% in 2016 compared to 28.3% in 2015. The higher effective tax rate in 2016 when compared to 2015

was primarily the result of 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.

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FINANCIAL CONDITION

Overview

At December 31, 2017, our assets were $17.518 billion, an 18% increase compared to $14.860 billion at December 31, 2016. The increase was primarily due to the acquisition of Anchor (MN) in November 2017, which had $2.222 billion in assets as of the closing date of the acquisition.

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 $15.209 billion at December 31, 2017, an increase of 19% compared to $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 $6.9 million of fixed-rate mortgage-backed securities and $677.2 million of state and political subdivision securities in our held-to-maturity investment portfolio at December 31, 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 $5.6 million at December 31, 2017, compared to $5.0 million at December 31, 2016.

At December 31, 2017, the investment securities portfolio, including trading securities, was $4.006 billion compared to $3.649 billion at December 31, 2016, an increase of $356.6 million, or 10%. Investment securities attributable to the Anchor (MN) acquisition totaled $308.8 million as of the closing date of the acquisition. Investment securities represented 26% of earning assets at December 31, 2017, compared to 29% at 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. As of December 31, 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 $56.4 million at December 31, 2017, compared to net unrealized losses of $61.5 million at December 31, 2016. Net unrealized losses decreased from December 31, 2016 to December 31, 2017 primarily due to the effect of a decrease in long-term interest rates on municipal bonds.

The investment portfolio had an effective duration of 4.15 at December 31, 2017, compared 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 weighted average yields on available-for-sale investment securities were 2.43% in 2017 and 2.44% in 2016. The average yields on the held-to-maturity portfolio were 5.44% in 2017 and 5.35% in 2016.

At December 31, 2017, Old National had a concentration of investment securities issued by certain states and their political subdivisions with the following aggregate market values: $375.1 million by Indiana, which represented 17.4% of shareholders equity, and $182.7 million by Texas, which represented 8.5% of shareholders equity. Of the

Indiana municipal bonds, 98% are rated A or better, and the remaining 2% generally represent non-rated local interest bonds where Old National has a market presence. All of the Texas municipal bonds are rated AA or better, and the majority of issues are backed by the AAA rated State of Texas Permanent School Fund Guarantee Program.

Loan Portfolio

We lend primarily to consumers and small to medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling, and retailing. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Kentucky, Michigan, Wisconsin, and Minnesota.

The following table presents the composition of the loan portfolio at December 31.

(dollars in thousands)	2017	2016	2015	2014	2013	Four-Year Growth Rate
Commercial	**$ 2,717,269**	$ 1,917,099	$ 1,814,940	$ 1,646,767	$ 1,402,750	18.0%
Commercial real estate	**4,354,552**	3,130,853	1,868,972	1,751,907	1,242,818	36.8
Consumer	**1,879,247**	1,875,030	1,603,158	1,379,117	1,049,974	15.7
Total loans excluding residential real estate	**8,951,068**	6,922,982	5,287,070	4,777,791	3,695,542	24.8
Residential real estate	**2,167,053**	2,087,530	1,661,335	1,540,410	1,387,422	11.8
Total loans	**11,118,121**	9,010,512	6,948,405	6,318,201	5,082,964	21.6%
Less: Allowance for loan losses	**50,381**	49,808	52,233	47,849	47,145	
Net loans	**$ 11,067,740**	$ 8,960,704	$ 6,896,172	$ 6,270,352	$ 5,035,819	

Commercial and Commercial Real Estate Loans

At December 31, 2017, commercial and commercial real estate loans were $7.072 billion, an increase of $2.024 billion, or 40%, compared to December 31, 2016. Commercial and commercial real estate loans attributable to the Anchor (MN) acquisition totaled $1.516 billion as of the closing date of the acquisition. Excluding these acquired loans, commercial and commercial real estate loans grew 10% in 2017.

The following table presents the maturity distribution and rate sensitivity of commercial loans at December 31, 2017 and an analysis of these loans that have predetermined and floating interest rates.

(dollars in thousands)	Within 1 Year	1 - 5 Years	Beyond 5 Years	Total	% of Total
Interest rates:					
Predetermined	**$ 154,147**	**$ 649,772**	**$ 606,103**	**$ 1,410,022**	**52%**
Floating	**688,557**	**408,632**	**210,058**	**1,307,247**	**48**
Total	**$ 842,704**	**$ 1,058,404**	**$ 816,161**	**$ 2,717,269**	**100%**

Residential Real Estate Loans

Residential real estate loans, primarily 1-4 family properties, increased $79.5 million, or 4%, at December 31, 2017 compared to December 31, 2016. Residential real estate loans attributable to the Anchor (MN) acquisition totaled $34.0 million as of the closing date of the acquisition. 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, increased $4.2 million at December 31, 2017 compared to December 31, 2016. Consumer loans attributable to the Anchor (MN) acquisition totaled $43.9 million as of the closing date of the acquisition. We continue to see runoff in our less profitable indirect consumer loan portfolio.

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. Additional information about our Allowance for Loan Losses is included in the Risk Management Credit Risk section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes 1 and 5 to the consolidated financial statements.

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At December 31, 2017, the allowance for loan losses was $50.4 million, an increase of $0.6 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 0.45% at December 31, 2017, compared to 0.55% at December 31, 2016. The decrease in the percentage from December 31, 2016 is primarily a result of the addition of the Anchor (MN) $1.594 billion loan portfolio. In accordance with ASC 805, no allowance for loan losses is recorded at the date of acquisition and a reserve is only established to absorb any subsequent credit deterioration or adverse changes in expected cash flows. The provision for loan losses was an expense of $3.1 million in 2017 compared to an expense of $1.0 milli