

OLD NATIONAL BANCORP /IN/

Form 10-Q

October 30, 2009

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2009**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-15817**

**OLD NATIONAL BANCORP**

(Exact name of Registrant as specified in its charter)

**INDIANA**

(State or other jurisdiction of  
incorporation or organization)

**35-1539838**

(I.R.S. Employer  
Identification No.)

**One Main Street  
Evansville, Indiana**

(Address of principal executive offices)

**47708**

(Zip Code)

**(812) 464-1294**

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to the filing requirements for at least the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock. The Registrant has one class of common stock (no par value) with 87,173,000 shares outstanding at September 30, 2009.



**OLD NATIONAL BANCORP  
FORM 10-Q  
INDEX**

|   | Page No. |
|---|----------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>   |          |
| Item 1. Financial Statements  |          |
| <u>Consolidated Balance Sheets</u><br><u>September 30, 2009 (unaudited), December 31, 2008 and September 30, 2008 (unaudited)</u>     | 3        |
| <u>Consolidated Statements of Income (unaudited)</u><br><u>Three and nine months ended September 30, 2009 and 2008</u>                | 4        |
| <u>Consolidated Statements of Changes in Shareholders' Equity (unaudited)</u><br><u>Nine months ended September 30, 2009 and 2008</u> | 5        |
| <u>Consolidated Statements of Cash Flows (unaudited)</u><br><u>Nine months ended September 30, 2009 and 2008</u>                      | 6        |
| <u>Notes to Consolidated Financial Statements (unaudited)</u>   | 7        |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                  | 38       |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | 56       |
| Item 4. <u>Controls and Procedures</u>  | 57       |
| <b><u>PART II OTHER INFORMATION</u></b>   | 57       |
| <b><u>SIGNATURES</u></b>  | 68       |
| <u>Exhibit 31.1</u>   |          |
| <u>Exhibit 31.2</u>   |          |
| <u>Exhibit 32.1</u>   |          |
| <u>Exhibit 32.2</u>   |          |

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

| (dollars and shares in thousands, except per share data)  | <b>September<br/>30,<br/>2009<br/>(unaudited)</b> | <b>December<br/>31,<br/>2008</b> | <b>September<br/>30,<br/>2008<br/>(unaudited)</b> |
|---|---|----------------------------------|---|
| <b>Assets</b>   |   |                                  |   |
| Cash and due from banks   | \$ 196,911  | \$ 162,893                       | \$ 166,078  |
| Federal funds sold and resell agreements  |   | 6                                | 9,292   |
| Money market investments  | 28,817  | 30,113                           | 18,591  |
| Total cash and cash equivalents   | 225,728   | 193,012                          | 193,961   |
| Investment securities available-for-sale, at fair value   |   |                                  |   |
| U.S. Treasury   | 101,359   |                                  |   |
| U.S. Government-sponsored entities and agencies   | 975,737   | 389,278                          | 319,793   |
| Mortgage-backed securities  | 868,331   | 1,081,619                        | 1,108,944   |
| States and political subdivisions   | 494,153   | 482,204                          | 327,370   |
| Other securities  | 178,871   | 171,925                          | 167,645   |
| Investment securities available-for-sale  | 2,618,451   | 2,125,026                        | 1,923,752   |
| Investment securities held-to-maturity, at amortized cost (fair value<br>\$313,272, \$100,831 and \$104,641 respectively) | 305,902   | 99,661                           | 105,316   |
| Federal Home Loan Bank stock, at cost   | 36,090  | 41,090                           | 41,090  |
| Residential loans held for sale, at fair value  | 11,365  | 17,155                           | 11,118  |
| Finance leases held for sale  | 58,394  |                                  |   |
| Loans:  |   |                                  |   |
| Commercial  | 1,396,997   | 1,897,966                        | 1,799,764   |
| Commercial real estate  | 1,091,494   | 1,154,916                        | 1,170,775   |
| Residential real estate   | 421,666   | 496,526                          | 508,112   |
| Consumer credit, net of unearned income   | 1,125,509   | 1,210,951                        | 1,203,265   |
| Total loans   | 4,035,666   | 4,760,359                        | 4,681,916   |
| Allowance for loan losses   | (69,551)  | (67,087)                         | (63,466)  |
| Net loans   | 3,966,115   | 4,693,272                        | 4,618,450   |
| Premises and equipment, net   | 56,539  | 44,625                           | 46,658  |
| Accrued interest receivable   | 45,281  | 49,030                           | 43,714  |
| Goodwill  | 167,884   | 159,198                          | 159,198   |
| Other intangible assets   | 34,487  | 27,628                           | 28,567  |
| Company-owned life insurance  | 223,902   | 223,126                          | 222,380   |
| Other assets  | 223,354   | 201,067                          | 174,084   |
| Total assets  | \$ 7,973,492                                      | \$ 7,873,890                     | \$ 7,568,288                                      |
| <b>Liabilities</b>  |   |                                  |   |
| Deposits:   |   |                                  |   |
| Noninterest-bearing demand  | \$ 1,045,910                                      | \$ 888,578                       | \$ 845,705  |

Edgar Filing: OLD NATIONAL BANCORP /IN/ - Form 10-Q

|   |                     |              |              |
|---|---------------------|--------------|--------------|
| Interest-bearing:   |                     |              |              |
| NOW   | <b>1,220,224</b>    | 1,292,574    | 1,222,967    |
| Savings   | <b>971,459</b>      | 874,602      | 923,202      |
| Money market  | <b>418,841</b>      | 420,821      | 448,667      |
| Time (including \$0, \$49,309 and \$48,875, respectively, at fair value)  | <b>2,037,921</b>    | 1,945,712    | 1,905,680    |
| Total deposits  | <b>5,694,355</b>    | 5,422,287    | 5,346,221    |
| Short-term borrowings   | <b>326,076</b>      | 649,623      | 541,648      |
| Other borrowings  | <b>808,611</b>      | 834,867      | 837,315      |
| Accrued expenses and other liabilities  | <b>279,037</b>      | 236,248      | 207,751      |
| Total liabilities   | <b>7,108,079</b>    | 7,143,025    | 6,932,935    |
| <b>Shareholders Equity</b>  |                     |              |              |
| Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding   |                     |              |              |
| Preferred stock, series T, no par value, \$100,000 liquidation value, 1,000 shares authorized, 0, 100 and 0 shares issued and outstanding, respectively |                     | 97,358       |              |
| Common stock, \$1 stated value, 150,000 shares authorized, 87,173, 66,321 and 66,285 shares issued and outstanding, respectively                        | <b>87,173</b>       | 66,321       | 66,285       |
| Capital surplus   | <b>747,582</b>      | 569,875      | 566,067      |
| Retained earnings   | <b>45,542</b>       | 50,815       | 59,684       |
| Accumulated other comprehensive loss, net of tax  | <b>(14,884)</b>     | (53,504)     | (56,683)     |
| Total shareholders equity   | <b>865,413</b>      | 730,865      | 635,353      |
| Total liabilities and shareholders equity   | <b>\$ 7,973,492</b> | \$ 7,873,890 | \$ 7,568,288 |

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

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

|  | <b>Three Months Ended</b> |               | <b>Nine Months Ended</b> |                |
|--|---------------------------|---------------|--------------------------|----------------|
|  | <b>September 30,</b>      |               | <b>September 30,</b>     |                |
|  | <b>2009</b>               | <b>2008</b>   | <b>2009</b>              | <b>2008</b>    |
| (dollars in thousands, except per share data)  |                           |               |                          |                |
| <b>Interest Income</b>   |                           |               |                          |                |
| Loans including fees:  |                           |               |                          |                |
| Taxable  | \$ 49,365                 | \$ 63,455     | \$ 151,322               | \$ 199,862     |
| Nontaxable   | 4,709                     | 5,930         | 16,414                   | 17,029         |
| Investment securities, available-for-sale:   |                           |               |                          |                |
| Taxable  | 20,418                    | 21,252        | 69,316                   | 65,312         |
| Nontaxable   | 5,588                     | 3,642         | 17,106                   | 10,298         |
| Investment securities, held-to-maturity, taxable   | 3,315                     | 1,252         | 6,304                    | 4,005          |
| Money market investments and federal funds sold  | 27                        | 148           | 125                      | 672            |
| <b>Total interest income</b>   | <b>83,422</b>             | <b>95,679</b> | <b>260,587</b>           | <b>297,178</b> |
| <b>Interest Expense</b>  |                           |               |                          |                |
| Deposits   | 16,643                    | 22,979        | 52,092                   | 74,812         |
| Short-term borrowings  | 312                       | 2,552         | 1,148                    | 9,532          |
| Other borrowings   | 10,056                    | 10,552        | 30,971                   | 32,104         |
| <b>Total interest expense</b>  | <b>27,011</b>             | <b>36,083</b> | <b>84,211</b>            | <b>116,448</b> |
| <b>Net interest income</b>   | <b>56,411</b>             | <b>59,596</b> | <b>176,376</b>           | <b>180,730</b> |
| Provision for loan losses  | 12,191                    | 6,842         | 41,459                   | 34,447         |
| <b>Net interest income after provision for loan losses</b>   | <b>44,220</b>             | <b>52,754</b> | <b>134,917</b>           | <b>146,283</b> |
| <b>Noninterest Income</b>  |                           |               |                          |                |
| Wealth management fees   | 3,852                     | 4,163         | 11,937                   | 13,644         |
| Service charges on deposit accounts  | 15,068                    | 11,835        | 41,432                   | 33,355         |
| ATM fees   | 5,421                     | 4,508         | 14,972                   | 13,013         |
| Mortgage banking revenue   | 1,515                     | 1,380         | 5,007                    | 3,984          |
| Insurance premiums and commissions   | 8,785                     | 8,782         | 29,103                   | 30,155         |
| Investment product fees  | 2,372                     | 2,335         | 6,861                    | 7,461          |
| Company-owned life insurance   | 488                       | 2,924         | 1,604                    | 8,435          |
| Net securities gains   | 5,102                     | 45            | 20,974                   | 6,625          |
| Impairment on available-for-sale securities (includes losses of \$8,983 and \$32,716, net of \$3,921 and \$17,399 recognized in other comprehensive income, pre-tax, for the three and nine months ended September 30, 2009, respectively) | (5,062)                   |               | (15,317)                 |                |
| Gain (loss) on derivatives   | (675)                     | (186)         | 324                      | (1,159)        |
| Gain on sale leaseback transactions  | 1,667                     | 1,601         | 4,724                    | 4,765          |
| Other income   | 470                       | 1,608         | 5,223                    | 9,106          |
| <b>Total noninterest income</b>  | <b>39,003</b>             | <b>38,995</b> | <b>126,844</b>           | <b>129,384</b> |

**Noninterest Expense**

|  |                 |           |                  |           |
|--|-----------------|-----------|------------------|-----------|
| Salaries and employee benefits                               | <b>46,502</b>   | 40,466    | <b>134,407</b>   | 125,972   |
| Occupancy  | <b>12,029</b>   | 9,834     | <b>34,671</b>    | 29,029    |
| Equipment  | <b>2,930</b>    | 2,354     | <b>7,918</b>     | 7,421     |
| Marketing  | <b>2,290</b>    | 3,094     | <b>6,904</b>     | 7,789     |
| Data processing  | <b>5,322</b>    | 4,768     | <b>15,566</b>    | 14,320    |
| Communication  | <b>2,723</b>    | 2,303     | <b>8,143</b>     | 6,825     |
| Professional fees  | <b>2,062</b>    | 1,729     | <b>6,812</b>     | 5,278     |
| Loan expense   | <b>1,175</b>    | 1,888     | <b>3,201</b>     | 4,882     |
| Supplies   | <b>891</b>      | 782       | <b>3,375</b>     | 2,416     |
| FDIC assessment  | <b>1,763</b>    | 287       | <b>10,188</b>    | 884       |
| Amortization of intangibles                                  | <b>1,662</b>    | 945       | <b>4,328</b>     | 2,719     |
| Other expense  | <b>4,617</b>    | 4,013     | <b>12,668</b>    | 10,698    |
| <b>Total noninterest expense</b>                             | <b>83,966</b>   | 72,463    | <b>248,181</b>   | 218,233   |
| Income (loss) before income taxes                            | <b>(743)</b>    | 19,286    | <b>13,580</b>    | 57,434    |
| Income tax expense (benefit)                                 | <b>(4,760)</b>  | 2,271     | <b>(9,477)</b>   | 1,604     |
| Net income   | <b>4,017</b>    | 17,015    | <b>23,057</b>    | 55,830    |
| Preferred stock dividends and discount accretion             |                 |           | <b>(3,892)</b>   |           |
| Net income available to common stockholders                  | <b>\$ 4,017</b> | \$ 17,015 | <b>\$ 19,165</b> | \$ 55,830 |
| Net income per common share basic                            | <b>\$ 0.06</b>  | \$ 0.26   | <b>\$ 0.29</b>   | \$ 0.85   |
| Net income per common share diluted                          | <b>0.06</b>     | 0.26      | <b>0.29</b>      | 0.85      |
| Weighted average number of common shares outstanding basic   | <b>66,635</b>   | 65,645    | <b>66,129</b>    | 65,636    |
| Weighted average number of common shares outstanding diluted | <b>66,706</b>   | 65,790    | <b>66,173</b>    | 65,738    |
| Dividends per common share                                   | <b>\$ 0.07</b>  | \$ 0.23   | <b>\$ 0.37</b>   | \$ 0.46   |

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



**Table of Contents****OLD NATIONAL BANCORP  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)**

| (dollars and shares<br>in thousands)   | <b>Preferred<br/>Stock</b> | <b>Common<br/>Stock</b> | <b>Capital<br/>Surplus</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income<br/>(Loss)</b> | <b>Total<br/>Shareholder<br/>Equity</b> | <b>Comprehensive<br/>Income</b> |
|--|----------------------------|-------------------------|----------------------------|------------------------------|--|---|---------------------------------|
| <b>Balance, December 31, 2007</b>  |                            | \$ 66,205               | \$ 563,675                 | \$ 34,346                    | \$ (11,345)  | \$ 652,881                              |                                 |
| Comprehensive income   |                            |                         |                            |                              |  |   |                                 |
| Net income   |                            |                         |                            | 55,830                       |  | 55,830                                  | \$ 55,830                       |
| Other comprehensive income (1)   |                            |                         |                            |                              |  |   |                                 |
| Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax         |                            |                         |                            |                              | (40,579)   | (40,579)                                | (40,579)                        |
| Reclassification adjustment on cash flows hedges, net of tax   |                            |                         |                            |                              | 131  | 131                                     | 131                             |
| Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax |                            |                         |                            |                              | (4,890)  | (4,890)                                 | (4,890)                         |
| Total comprehensive income   |                            |                         |                            |                              |  |   | \$ 10,492                       |
| Dividends common stock   |                            |                         |                            | (30,492)                     |  | (30,492)                                |                                 |
| Common stock repurchased   |                            | (26)                    | (413)                      |                              |  | (439)                                   |                                 |
| Stock based compensation expense   |                            |                         | 1,469                      |                              |  | 1,469                                   |                                 |
| Stock activity under incentive comp plans  |                            | 106                     | 1,336                      |                              |  | 1,442                                   |                                 |
| <b>Balance, September 30, 2008</b>   |                            | \$ 66,285               | \$ 566,067                 | \$ 59,684                    | \$ (56,683)  | \$ 635,353                              |                                 |
| <b>Balance, December 31, 2008</b>  | <b>\$ 97,358</b>           | <b>\$ 66,321</b>        | <b>\$ 569,875</b>          | <b>\$ 50,815</b>             | <b>\$ (53,504)</b>   | <b>\$ 730,865</b>                       |                                 |
| Comprehensive income   |                            |                         |                            |                              |  |   |                                 |
| Net income   |                            |                         |                            | 23,057                       |  | 23,057                                  | \$ 23,057                       |
| Other comprehensive income (1)   |                            |                         |                            |                              |  |   |                                 |
| Change in unrealized gain (loss) on securities available   |                            |                         |                            |                              | 37,305   | 37,305                                  | 37,305                          |

|  |                 |                  |                   |                  |                    |                 |                   |                  |
|--|-----------------|------------------|-------------------|------------------|--------------------|-----------------|-------------------|------------------|
| for sale, net of<br>reclassification and tax   |                 |                  |                   |                  |                    |                 |                   |                  |
| Reclassification adjustment<br>on cash flows hedges, net of<br>tax   |                 |                  |                   |                  |                    | <b>661</b>      | <b>661</b>        | <b>661</b>       |
| Net loss, settlement cost and<br>amortization of net<br>(gain) loss on defined<br>benefit pension plans, net of<br>tax |                 |                  |                   |                  |                    | <b>654</b>      | <b>654</b>        | <b>654</b>       |
| <br>Total comprehensive<br>income  |                 |                  |                   |                  |                    |                 |                   | <b>\$ 61,677</b> |
| <br>Dividends common stock   |                 |                  |                   |                  |                    | <b>(24,400)</b> | <b>(24,400)</b>   |                  |
| Dividends preferred stock  |                 |                  |                   |                  |                    | <b>(1,250)</b>  | <b>(1,250)</b>    |                  |
| Common stock issued  |                 | <b>20,895</b>    | <b>177,482</b>    |                  |                    |                 | <b>198,377</b>    |                  |
| Preferred stock repurchased  | <b>(97,358)</b> |                  |                   |                  |                    | <b>(2,642)</b>  | <b>(100,000)</b>  |                  |
| Common stock repurchased   |                 | <b>(28)</b>      | <b>(324)</b>      |                  |                    |                 | <b>(352)</b>      |                  |
| Warrants repurchased   |                 |                  | <b>(1,200)</b>    |                  |                    |                 | <b>(1,200)</b>    |                  |
| Stock based compensation<br>expense  |                 |                  | <b>1,513</b>      |                  |                    |                 | <b>1,513</b>      |                  |
| Stock activity under<br>incentive comp plans   |                 | <b>(15)</b>      | <b>236</b>        |                  | <b>(38)</b>        |                 | <b>183</b>        |                  |
| <br><b>Balance, September 30,<br/>2009</b>   | <b>\$</b>       | <b>\$ 87,173</b> | <b>\$ 747,582</b> | <b>\$ 45,542</b> | <b>\$ (14,884)</b> | <b>\$</b>       | <b>\$ 865,413</b> |                  |

(1) See Note 5 to  
the consolidated  
financial  
statements.

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

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

| (dollars in thousands)  | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2009</b>                                | <b>2008</b> |
| <b>Cash Flows From Operating Activities</b>   |  |             |
| Net income  | \$ 23,057                                  | \$ 55,830   |
| Adjustments to reconcile net income to cash provided by operating activities:               |  |             |
| Depreciation  | 6,757                                      | 4,454       |
| Amortization and impairment of other intangible assets                                      | 4,328                                      | 3,411       |
| Net premium (discount) amortization on investment securities                                | 964  | (1,181)     |
| Restricted stock expense  | 1,209                                      | 1,162       |
| Stock option expense  | 304  | 308         |
| Provision for loan losses   | 41,459                                     | 34,447      |
| Net securities gains  | (20,974)                                   | (6,625)     |
| Impairment on available-for-sale securities   | 15,317                                     |             |
| Gain on sale leasebacks   | (4,724)                                    | (4,765)     |
| (Gain) loss on derivatives  | (324)                                      | 1,159       |
| Net gains on sales and write-downs of loans and other assets                                | (641)                                      | (2,172)     |
| (Gain) loss on extinguishment of debt   | 431  | (148)       |
| Increase in cash surrender value of company owned life insurance                            | (776)                                      | (7,894)     |
| Residential real estate loans originated for sale   | (214,433)                                  | (132,942)   |
| Proceeds from sale of residential real estate loans   | 223,027                                    | 137,094     |
| (Increase) decrease in interest receivable  | 3,781                                      | 6,563       |
| (Increase) decrease in other assets   | (44,501)                                   | (27,161)    |
| Increase (decrease) in accrued expenses and other liabilities                               | 47,276                                     | (11,358)    |
| Total adjustments   | 58,480                                     | (5,648)     |
| Net cash flows provided by operating activities   | 81,537                                     | 50,182      |
| <b>Cash Flows From Investing Activities</b>   |  |             |
| Cash and cash equivalents of acquired banking branches, net                                 | 389,917                                    |             |
| Purchases of investment securities available-for-sale                                       | (1,841,706)                                | (786,880)   |
| Purchase of loans   | (8,024)                                    |             |
| Proceeds from maturities, prepayments and calls of investment securities available-for-sale | 558,218                                    | 682,189     |
| Proceeds from sales of investment securities available-for-sale                             | 630,381                                    | 262,058     |
| Proceeds from maturities, prepayments and calls of investment securities held-to-maturity   | 21,992                                     | 20,958      |
| Proceeds from sale of loans   | 259,253                                    | 2,251       |
| Net principal collected from (loans made to) customers                                      | 380,962                                    | (25,200)    |
| Proceeds from sale of premises and equipment and other assets                               | 1,146                                      | 7,574       |
| Proceeds from sale leaseback of real estate   | 4,967                                      | 4,542       |
| Purchases of premises and equipment   | (11,832)                                   | (9,349)     |
| Net cash flows provided by (used in) investing activities                                   | 385,274                                    | 158,143     |

**Cash Flows From Financing Activities**

|  |                   |                   |
|--|-------------------|-------------------|
| Net increase (decrease) in deposits and short-term borrowings: |                   |                   |
| Noninterest-bearing demand deposits                            | 77,636            | (9,744)           |
| Savings, NOW and money market deposits                         | (158,457)         | (152,012)         |
| Time deposits  | (72,644)          | (153,519)         |
| Short-term borrowings  | (323,547)         | (96,599)          |
| Payments for maturities on other borrowings                    | (2,627)           | (151,581)         |
| Proceeds from issuance of other borrowings                     |                   | 330,000           |
| Payments related to retirement of debt                         | (25,464)          |                   |
| Cash dividends paid on common stock                            | (24,400)          | (45,407)          |
| Cash dividends paid on preferred stock                         | (1,514)           |                   |
| Common stock repurchased                                       | (352)             | (439)             |
| Proceeds from exercise of stock options, including tax benefit | 97                | 1,265             |
| Repurchase of TARP preferred stock and warrants                | (101,200)         |                   |
| Common stock issued  | 198,377           |                   |
| <br>   |                   |                   |
| Net cash flows provided by (used in) financing activities      | (434,095)         | (278,036)         |
| <br>   |                   |                   |
| Net increase (decrease) in cash and cash equivalents           | 32,716            | (69,711)          |
| Cash and cash equivalents at beginning of period               | 193,012           | 263,672           |
| <br>   |                   |                   |
| <b>Cash and cash equivalents at end of period</b>              | <b>\$ 225,728</b> | <b>\$ 193,961</b> |
| <br>   |                   |                   |
| Supplemental cash flow information:                            |                   |                   |
| Total interest paid  | \$ 83,392         | \$ 119,825        |
| Total taxes paid (net of refunds)                              | \$ 2,702          | \$ 16,202         |

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

**Table of Contents**

**OLD NATIONAL BANCORP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates ( Old National ) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, goodwill and intangibles, derivative financial instruments, income taxes and valuation of securities are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of September 30, 2009 and 2008, and December 31, 2008, and the results of its operations for the three and nine months ended September 30, 2009 and 2008. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National s Annual Report for the year ended December 31, 2008.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2009 presentation. Such reclassifications had no effect on net income.

In June 2009, the FASB issued Statement No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FASB ASC 105-10, Generally Accepted Accounting Principles). SFAS No. 168 replaces SFAS No. 162 and establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles ( GAAP ). Rules and interpretative releases of the Securities and Exchange Commission under federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB Accounting Standards Codification ( ASC ) will be effective for financial statements that cover interim and annual periods ending after September 15, 2009. Other than resolving certain minor inconsistencies in current GAAP, the FASB Accounting Standards Codification is not intended to change GAAP, but rather to make it easier to review and research GAAP applicable to a particular transaction or accounting issue. Technical references to generally accepted accounting principles included in the Notes to Consolidated Financial Statements are provided under the new FASB ASC structure with the prior terminology included parenthetically.

Management has evaluated subsequent events for reporting and disclosure in these financial statements through October 30, 2009, the date the financial statements were issued.

**NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

**FASB ASC 820-10** In February 2008, the FASB issued new guidance impacting FASB ASC 820-10, (FASB Staff Position No. 157-2). The staff position delays the effective date of FASB ASC 820-10 (SFAS No. 157) for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The delay expired January 1, 2009, and the expiration of the delay did not have a material impact on Old National s consolidated financial position or results of operations.

**Table of Contents**

**FASB ASC 805** In December 2007, the FASB issued new guidance impacting FASB ASC 805, *Business Combinations* (SFAS No. 141(R) Business Combinations). The new guidance establishes principles and requirements for how an acquiring company (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The new standard became effective for the Company on January 1, 2009. See Note 3 to the consolidated financial statements for the impact on the Company of adopting SFAS No. 141(R).

**FASB ASC 810-10** In December 2007, the FASB issued FASB ASC 810-10, Consolidation (Statement No. 160 *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*). FASB ASC 810-10 requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the consolidated balance sheet within equity, but separate from the parent's equity. It also requires the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income. The new standard became effective for the Company on January 1, 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

**FASB ASC 815-10** In March 2008, the FASB issued FASB ASC 815-10, Derivatives and Hedging (Statement No. 161 *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*). FASB ASC 815-10 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The new standard became effective for the Company on January 1, 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial position or results of operations and the required disclosures have been included.

**FASB ASC 855** In May 2009, the FASB issued FASB ASC 855, Subsequent Events (Statement No. 165 *Subsequent Events*). FASB ASC 855 establishes the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements and the circumstances under which an entity shall recognize events or transactions that occur after the balance sheet date. FASB ASC 855 also requires disclosure of the date through which subsequent events have been evaluated. The Company adopted this standard for the interim reporting period ending June 30, 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

**FASB ASC 860** In June 2009, the FASB issued new guidance impacting FASB ASC 860, Transfers and servicing (Statement No. 166 *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140*). The new guidance removes the concept of a qualifying special-purpose entity and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. The new standard will become effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting the new standard on the consolidated financial statements.

**FASB ASC 810-10** In June 2009, the FASB issued new guidance impacting FASB ASC 810-10, Consolidation (Statement No. 167 *Amendments to FASB Interpretation No. 46(R)*). The new guidance amends tests for variable interest entities to determine whether a variable interest entity must be consolidated. FASB ASC 810-10 requires an entity to perform an analysis to determine whether an entity's variable interest or interests give it a controlling financial interest in a variable interest entity. This standard requires ongoing reassessments of whether an entity is the primary beneficiary of a variable interest entity and enhanced disclosures that provide more transparent information about an entity's involvement with a variable interest entity. The new guidance will become effective for the Company on January 1, 2010 and the Company is currently evaluating the impact of adopting the standard on the consolidated financial statements.



**Table of Contents**

**FASB ASC 105-10** In June 2009, the FASB issued FASB ASC 105-10, Generally Accepted Accounting Principles (Statement No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*). The new guidance replaces SFAS No. 162 and establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles ( GAAP ). Rules and interpretative releases of the Securities and Exchange Commission under federal securities laws are also sources of authoritative GAAP for SEC registrants. The new standard became effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this statement did not have a material impact on the Company s consolidated financial position or results of operations. Technical references to generally accepted accounting principles included in the Notes to Consolidated Financial Statements are provided under the new FASB ASC structure with the prior terminology included parenthetically.

**FASB ASC 715-20-50** In December 2008, the FASB issued new guidance impacting FASB ASC 715-20-50, Compensation Retirement Benefits Defined Benefit Plans General (FASB Staff Position No. 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*). This provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The guidance requires disclosure of the fair value of each major category of plan assets for pension plans and other postretirement benefit plans. This standard becomes effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

**FASB ASC 825-10-50** In April 2009, the FASB issued new guidance impacting FASB ASC 825-10-50, Financial Instruments (FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*). This guidance amends existing GAAP to require disclosures about fair values of financial instruments for interim reporting periods as well as in annual financial statements. The guidance also amends existing GAAP to require those disclosures in summarized financial information at interim reporting periods. The Company adopted this standard for the interim reporting period ending March 31, 2009.

**FASB ASC 320-10** In April 2009, the FASB issued new guidance impacting FASB ASC 320-10, Investments Debt and Equity Securities (FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). This guidance amends the other-than-temporary impairment guidance in U.S. generally accepted accounting principles for debt securities. If an entity determines that it has an other-than-temporary impairment on a security, it must recognize the credit loss on the security in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. FASB ASC 320-10 expands disclosures about other-than-temporary impairment and requires that the annual disclosures in existing generally accepted accounting principles be made for interim reporting periods. The Company adopted this guidance for the interim reporting period ending March 31, 2009. See Note 6 to the consolidated financial statements for the impact on the Company of adopting this new guidance.

**FASB ASC 820** In April 2009, the FASB issued new guidance impacting FASB ASC 820, Fair Value Measurements and Disclosures (FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*). This provides additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. A significant decrease in the volume or level of activity for the asset or liability is an indication that transactions or quoted prices may not be determinative of fair value because transactions may not be orderly. In that circumstance, further analysis of transactions or quoted prices is needed, and an adjustment to the transactions or quoted prices may be necessary to estimate fair value. The Company adopted this guidance for the interim reporting period ending March 31, 2009 and it did not have a material impact on the Company s consolidated financial position or results of operations.

**SAB III** In April 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 111 ( SAB 111 ). SAB 111 amends Topic 5.M. in the Staff Accounting Bulletin series entitled *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*. On April 9, 2009, the FASB issued new guidance impacting FASB ASC 320-10, Investments Debt and Equity Securities (FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). SAB 111 maintains the previous views related



to equity securities and amends Topic 5.M. to exclude debt securities from its scope. SAB 111 was effective for the Company as of March 31, 2009. There was no material impact to Old National's consolidated financial position or results of operations upon adoption.

**Table of Contents**

**SAB 112** In June 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 112 ( SAB 112 ). SAB 112 revises or rescinds portions of the interpretative guidance included in the Staff Accounting Bulletin series in order to make the interpretative guidance consistent with recent pronouncements by the FASB, specifically FASB ASC 805 and FASB ASC 810-10 (SFAS No. 141(R) and SFAS No. 160). SAB 112 was effective for the Company as of June 30, 2009. There was no material impact to Old National's consolidated financial position or results of operations upon adoption.

**FASB ASC 323** In November 2008, the FASB Emerging Issues Task Force reached a consensus on FASB ASC 323, Investments – Equity Method and Joint Ventures (Issue No. 08-6, *Equity Method Investment Accounting Considerations*). The new guidance clarifies the accounting for certain transactions and impairment considerations involving equity method investments. An equity investor shall not separately test an investee's underlying assets for impairment but will recognize its share of any impairment charge recorded by an investee in earnings and consider the effect of the impairment on its investment. An equity investor shall account for a share issuance by an investee as if the investor had sold a proportionate share of its investment, with any gain or loss recognized in earnings. The new guidance became effective for the Company on January 1, 2009 and did not have a material impact on the Company's consolidated financial position or results of operations.

**FASB ASC 350** In November 2008, the FASB Emerging Issues Task Force reached a consensus on FASB ASC 350, Intangibles – Goodwill and Other (Issue No. 08-7, *Accounting for Defensive Intangible Assets*). The new guidance clarifies how to account for defensive intangible assets subsequent to initial measurement. The guidance applies to acquired intangible assets in situations in which an entity does not intend to actively use an asset but intends to hold the asset to prevent others from obtaining access to the asset. A defensive intangible asset should be accounted for as a separate unit of accounting with an expected life that reflects the consumption of the expected benefits related to that asset. The benefit from holding a defensive intangible asset is the direct and indirect cash flows resulting from the entity preventing others from using the asset. The new guidance was effective for intangible assets acquired on or after January 1, 2009 and did not have a material impact on the Company's consolidated financial position or results of operations.

**FASB ASC 260-10** In June 2008, the FASB issued new guidance impacting FASB ASC 260-10, Earnings Per Share (FSP No. EITF 03-06-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*). This new guidance concluded that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and therefore are considered participating securities for purposes of computing earnings per share. Entities that have participating securities that are not convertible into common stock are required to use the two-class method of computing earnings per share. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. This new guidance was effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. This new guidance became effective for the Company on January 1, 2009 and did not have a material impact on the Company's consolidated financial position or results of operations.

**FASB ASC 820-10** In August 2009, the FASB issued an update (ASC No. 2009-05, *Measuring Liabilities at Fair Value*) impacting FASB ASC 820-10, Fair Value Measurements and Disclosures. The update provides clarification about measuring liabilities at fair value in circumstances where a quoted price in an active market for an identical liability is not available and the valuation techniques that should be used. The update also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This update became effective for the Company for the reporting period ending September 30, 2009 and did not have a material impact on the Company's consolidated financial position or results of operations.

**Table of Contents**

**FASB ASC 820-10** In September 2009, the FASB issued an update (ASC No. 2009-12, Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)) impacting FASB ASC 820-10, Fair Value Measurements and Disclosures. The amendments in this update permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments in this update on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment is calculated in a manner consistent with the measurement principles of Topic 946, Financial Services-Investment Companies. The amendments in this update also require disclosures by major category of investment about the attributes of investments within the scope of the amendments in this update, such as the nature of any restrictions on the ability to redeem an investment on the measurement date. This update becomes effective for the Company for interim and annual reporting periods ending after December 15, 2009. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

**NOTE 3 ACQUISITION**

On March 20, 2009, Old National completed its acquisition of the Indiana retail branch banking network of Citizens Financial Group, which consists of 65 branches and a training facility. The branches are located primarily in the Indianapolis area, with additional locations in the Lafayette, Fort Wayne, Anderson and Bloomington, Indiana markets. Pursuant to the terms of the purchase agreement, Old National paid Citizens Financial Group approximately \$17.2 million. In accordance with FASB ASC 805 (SFAS No. 141(R) *Business Combinations*), Old National has expensed approximately \$4.9 million of acquisition costs and recorded goodwill of \$8.7 million and \$11.2 million of intangible assets. The intangible assets are related to core deposits and are being amortized on an accelerated basis over 7 years. See Note 9 to the consolidated financial statements for additional information. On the date of acquisition, Old National assumed deposit liabilities valued at approximately \$427 million and acquired a portfolio of loans valued at approximately \$5.6 million.

**NOTE 4 NET INCOME PER SHARE**

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

|   | <b>Three Months<br/>Ended<br/>September 30,<br/>2009</b> | <b>Three Months<br/>Ended<br/>September 30,<br/>2008</b> |
|---|--|--|
| (dollars and shares in thousands, except per share data)  |  |  |
| <b>Basic Earnings Per Share</b>                           |  |  |
| Net income  | \$ 4,017   | \$ 17,015  |
| Less: Preferred stock dividends and accretion of discount |  |  |
| Net income available to common stockholders               | 4,017  | 17,015   |
| Weighted average common shares outstanding                | 66,635   | 65,645   |
| <b>Basic Earnings Per Share</b>                           | <b>\$ 0.06</b>   | <b>\$ 0.26</b>   |
| <b>Diluted Earnings Per Share</b>                         |  |  |
| Net income available to common stockholders               | 4,017  | 17,015   |
| Weighted average common shares outstanding                | 66,635   | 65,645   |
| Effect of dilutive securities:                            |  |  |
| Restricted stock (1)                                      | 66   | 111  |
| Stock options (2)   | 5  | 34   |

|                                     |           |               |           |        |
|-------------------------------------|-----------|---------------|-----------|--------|
| Weighted average shares outstanding |           | <b>66,706</b> |           | 65,790 |
| <b>Diluted Earnings Per Share</b>   | <b>\$</b> | <b>0.06</b>   | <b>\$</b> | 0.26   |

**Table of Contents**

|   | <b>Nine Months<br/>Ended<br/>September 30,<br/>2009</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2008</b> |
|---|---|---|
| (dollars and shares in thousands, except per share data)  |   |   |
| <b>Basic Earnings Per Share</b>                           |   |   |
| Net income  | \$ 23,057   | \$ 55,830   |
| Less: Preferred stock dividends and accretion of discount | 3,892   |   |
| Net income available to common stockholders               | 19,165  | 55,830  |
| Weighted average common shares outstanding                | 66,129  | 65,636  |
| <b>Basic Earnings Per Share</b>                           | <b>\$ 0.29</b>  | <b>\$ 0.85</b>  |
| <b>Diluted Earnings Per Share</b>                         |   |   |
| Net income available to common stockholders               | 19,165  | 55,830  |
| Weighted average common shares outstanding                | 66,129  | 65,636  |
| Effect of dilutive securities:                            |   |   |
| Restricted stock (1)                                      | 36  | 69  |
| Stock options (2)   | 8   | 33  |
| Weighted average shares outstanding                       | 66,173  | 65,738  |
| <b>Diluted Earnings Per Share</b>                         | <b>\$ 0.29</b>  | <b>\$ 0.85</b>  |

(1) 300 and 311 shares of restricted stock were not included in the computation of net income per diluted share for the third quarter and nine months ended September 30, 2009, respectively, and 60 shares of restricted stock were not included in the computation of net income per

diluted share for the nine months ended September 30, 2008 because the effect would be antidilutive.

- (2) Options to purchase 6,040 shares and 5,653 shares outstanding at September 30, 2009 and 2008, respectively, were not included in the computation of net income per diluted share for the third quarter and nine months ended September 30, 2009 and 2008, respectively, because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

In June 2008, the FASB issued new guidance impacting FASB ASC 260-10 (FSP No. EITF 03-06-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*). This new guidance is effective for Old National for the interim periods beginning January 1, 2009. Upon adoption, all prior-period earnings per share data were recalculated according to the new guidance. These calculations resulted in no material changes to earnings per share data as previously presented.

**Table of Contents****NOTE 5 COMPREHENSIVE INCOME**

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and unrealized gains and losses on cash flow hedges and changes in funded status of pension plans which are also recognized as separate components of equity. Following is a summary of other comprehensive income (loss) for the three and nine months ended September 30, 2009 and 2008:

| (dollars in thousands)   | Three Months Ended |           | Nine Months Ended |           |
|--|--------------------|-----------|-------------------|-----------|
|  | September 30,      |           | September 30,     |           |
|  | 2009               | 2008      | 2009              | 2008      |
| Net income   | \$ 4,017           | \$ 17,015 | \$ 23,057         | \$ 55,830 |
| Other comprehensive income (loss)  |                    |           |                   |           |
| Change in securities available for sale:   |                    |           |                   |           |
| Unrealized holding gains (losses) arising during the period  | 56,395             | (23,060)  | 80,367            | (60,802)  |
| Reclassification adjustment for securities (gains) losses realized in income   | (5,102)            | (45)      | (20,974)          | (6,625)   |
| Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income         | (3,921)            |           | (17,399)          |           |
| Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income | 5,062              |           | 15,317            |           |
| Income tax effect  | (19,305)           | 9,218     | (20,928)          | 26,848    |
| Change in securities held-to-maturity:   |                    |           |                   |           |
| Amortization of fair value previously recognized into accumulated other comprehensive income                         | (185)              |           | 1,537             |           |
| Income tax effect  | 74                 |           | (615)             |           |
| Cash flow hedges:  |                    |           |                   |           |
| Net unrealized derivative gains (losses) on cash flow hedges   | 839                |           | 883               |           |
| Reclassification adjustment on cash flow hedges  | 72                 | 73        | 216               | 216       |
| Income tax effect  | (364)              | (29)      | (438)             | (85)      |
| Defined benefit pension plans:   |                    |           |                   |           |
| Amortization of net (gain) loss recognized in income   | 363                | (4,076)   | 1,090             | (8,151)   |
| Income tax effect  | (145)              | 1,630     | (436)             | 3,261     |
| Total other comprehensive income (loss)  | 33,783             | (16,289)  | 38,620            | (45,338)  |
| Comprehensive income (loss)  | \$ 37,800          | \$ 726    | \$ 61,677         | \$ 10,492 |

The following table summarizes the changes within each classification of accumulated other comprehensive income for the nine months ended September 30, 2009 and 2008:

| (dollars in thousands)       | Unrealized gains (losses) on available for sale securities | Unrecognized gain (loss) on cash flow hedges | Defined benefit pension plans | Accumulated other comprehensive income (loss) |
|------------------------------|--|--|-------------------------------|---|
| Balance at December 31, 2008 | \$ (40,504)  | \$ (480)                                     | \$ (12,520)                   | \$ (53,504)                                   |

Edgar Filing: OLD NATIONAL BANCORP /IN/ - Form 10-Q

|                                   |    |                |    |            |    |                 |    |                 |
|-----------------------------------|----|----------------|----|------------|----|-----------------|----|-----------------|
| Other comprehensive income        |    | <b>37,305</b>  |    | <b>661</b> |    | <b>654</b>      |    | <b>38,620</b>   |
| Balance at September 30, 2009     | \$ | <b>(3,199)</b> | \$ | <b>181</b> | \$ | <b>(11,866)</b> | \$ | <b>(14,884)</b> |
| Balance at December 31, 2007      | \$ | (3,704)        | \$ | (655)      | \$ | (6,986)         | \$ | (11,345)        |
| Other comprehensive income (loss) |    | (40,579)       |    | 131        |    | (4,890)         |    | (45,338)        |
| Balance at September 30, 2008     | \$ | (44,283)       | \$ | (524)      | \$ | (11,876)        | \$ | (56,683)        |



**Table of Contents****NOTE 6 INVESTMENT SECURITIES**

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at September 30, 2009 and December 31, 2008 and the corresponding amounts of unrealized gains and losses therein:

| (dollars in thousands)                          | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|---------------------|----------------------|---------------|
| <b>September 30, 2009</b>                       |                   |                     |                      |               |
| <b>Available-for-sale</b>                       |                   |                     |                      |               |
| U.S. Treasury                                   | \$ 101,322        | \$ 37               | \$                   | \$ 101,359    |
| U.S. Government-sponsored entities and agencies | 973,863           | 5,322               | (3,448)              | 975,737       |
| Mortgage-backed securities Agency               | 665,542           | 19,308              | (7)                  | 684,843       |
| Mortgage-backed securities Non-agency           | 230,775           | 742                 | (48,029)             | 183,488       |
| States and political subdivisions               | 460,412           | 34,180              | (439)                | 494,153       |
| Pooled trust preferred securities               | 34,008            |                     | (17,978)             | 16,030        |
| Other securities                                | 159,837           | 6,927               | (3,923)              | 162,841       |
| Total available-for-sale securities             | \$ 2,625,759      | \$ 66,516           | \$ (73,824)          | \$ 2,618,451  |
| <b>Held-to-maturity</b>                         |                   |                     |                      |               |
| U.S. Government-sponsored entities and agencies | \$ 228,571        | \$ 4,224            | \$                   | \$ 232,795    |
| Mortgage-backed securities Agency               | 73,361            | 3,571               |                      | 76,932        |
| Other securities                                | 3,970             |                     | (425)                | 3,545         |
| Total held-to-maturity securities               | \$ 305,902        | \$ 7,795            | \$ (425)             | \$ 313,272    |
| <b>December 31, 2008</b>                        |                   |                     |                      |               |
| <b>Available-for-sale</b>                       |                   |                     |                      |               |
| U.S. Government-sponsored entities and agencies | \$ 381,634        | \$ 7,644            | \$                   | \$ 389,278    |
| Mortgage-backed securities Agency               | 850,222           | 15,125              | (586)                | 864,761       |
| Mortgage-backed securities Non-agency           | 276,842           | 318                 | (60,302)             | 216,858       |
| States and political subdivisions               | 471,246           | 16,030              | (5,072)              | 482,204       |
| Pooled trust preferred securities               | 48,853            |                     | (29,186)             | 19,667        |
| Other securities                                | 160,848           | 883                 | (9,473)              | 152,258       |
| Total available-for-sale securities             | \$ 2,189,645      | \$ 40,000           | \$ (104,619)         | \$ 2,125,026  |
| <b>Held-to-maturity</b>                         |                   |                     |                      |               |
| Mortgage-backed securities Agency               | \$ 90,987         | \$ 1,529            | \$                   | \$ 92,516     |
| Other securities                                | 8,674             |                     | (359)                | 8,315         |
| Total held-to-maturity securities               | \$ 99,661         | \$ 1,529            | \$ (359)             | \$ 100,831    |

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



**Table of Contents**

| (dollars in thousands)    | <b>September 30, 2009</b> |              | <b>Weighted</b> |
|---------------------------|---------------------------|--------------|-----------------|
| <b>Maturity</b>           | <b>Amortized</b>          | <b>Fair</b>  | <b>Average</b>  |
| <b>Available-for-sale</b> | <b>Cost</b>               | <b>Value</b> | <b>Yield</b>    |
| Within one year           | \$ 95,074                 | \$ 94,458    | 4.27%           |
| One to five years         | 1,108,072                 | 1,083,349    | 3.89            |
| Five to ten years         | 409,899                   | 416,764      | 4.58            |
| Beyond ten years          | 1,012,714                 | 1,023,880    | 5.22            |
| Total                     | \$ 2,625,759              | \$ 2,618,451 | 4.53%           |
| <br>                      |                           |              |                 |
| <b>Held-to-maturity</b>   |                           |              |                 |
| One to five years         | \$ 77,331                 | \$ 80,477    | 4.52%           |
| Beyond ten years          | 228,571                   | 232,795      | 3.88            |
| Total                     | \$ 305,902                | \$ 313,272   | 4.04%           |

The following table summarizes the investment securities with unrealized losses at September 30, 2009 and December 31, 2008 by aggregated major security type and length of time in a continuous unrealized loss position:

| (dollars in thousands)                          | <b>Less than 12 months</b> |                   | <b>12 months or longer</b> |                   | <b>Total</b> |                   |
|---|----------------------------|-------------------|----------------------------|-------------------|--------------|-------------------|
| <b>September 30, 2009</b>                       | <b>Fair</b>                | <b>Unrealized</b> | <b>Fair</b>                | <b>Unrealized</b> | <b>Fair</b>  | <b>Unrealized</b> |
| <b>Available-for-Sale</b>                       | <b>Value</b>               | <b>Losses</b>     | <b>Value</b>               | <b>Losses</b>     | <b>Value</b> | <b>Losses</b>     |
| U.S. Government-sponsored entities and agencies | \$ 257,542                 | \$ (3,448)        | \$                         | \$                | \$ 257,542   | \$ (3,448)        |
| Mortgage-backed securities Agency               | 3,587                      | (7)               | 84                         |                   | 3,671        | (7)               |
| Mortgage-backed securities Non-agency           | 1,411                      | (14)              | 155,562                    | (48,015)          | 156,973      | (48,029)          |
| States and political subdivisions               | 31,315                     | (285)             | 6,819                      | (154)             | 38,134       | (439)             |
| Pooled trust preferred securities               |                            |                   | 16,029                     | (17,978)          | 16,029       | (17,978)          |
| Other securities                                | 1                          | (2)               | 12,929                     | (3,921)           | 12,930       | (3,923)           |
| Total available-for-sale                        | \$ 293,856                 | \$ (3,756)        | \$ 191,423                 | \$ (70,068)       | \$ 485,279   | \$ (73,824)       |
| <br>  |                            |                   |                            |                   |              |                   |
| <b>Held-to-Maturity</b>                         |                            |                   |                            |                   |              |                   |
| U.S. Government-sponsored entities and agencies | \$                         | \$                | \$                         | \$                | \$           | \$                |
| Other securities                                |                            |                   | 3,545                      | (425)             | 3,545        | (425)             |
| Total held-to-maturity                          | \$                         | \$                | \$ 3,545                   | \$ (425)          | \$ 3,545     | \$ (425)          |

**December 31, 2008**  
**Available-for-Sale**

Edgar Filing: OLD NATIONAL BANCORP /IN/ - Form 10-Q

|                                       |            |             |            |             |            |              |
|---------------------------------------|------------|-------------|------------|-------------|------------|--------------|
| Mortgage-backed securities Agency     | \$ 66,047  | \$ (212)    | \$ 33,689  | \$ (378)    | \$ 99,736  | \$ (590)     |
| Mortgage-backed securities Non-agency | 83,360     | (13,259)    | 116,192    | (47,043)    | 199,552    | (60,302)     |
| States and political subdivisions     | 121,276    | (5,072)     |            |             | 121,276    | (5,072)      |
| Pooled trust preferred securities     |            |             | 19,668     | (29,186)    | 19,668     | (29,186)     |
| Other securities                      | 81,326     | (7,793)     | 10,117     | (1,676)     | 91,443     | (9,469)      |
| Total available-for-sale              | \$ 352,009 | \$ (26,336) | \$ 179,666 | \$ (78,283) | \$ 531,675 | \$ (104,619) |

**Held-to-Maturity**

|                        |    |    |          |          |          |          |
|------------------------|----|----|----------|----------|----------|----------|
| Other securities       | \$ | \$ | \$ 8,315 | \$ (359) | \$ 8,315 | \$ (359) |
| Total held-to-maturity | \$ | \$ | \$ 8,315 | \$ (359) | \$ 8,315 | \$ (359) |

Proceeds from sales and calls of securities available for sale were \$915.8 million and \$646.8 million for the nine months ended September 30, 2009 and 2008, respectively. Gains of \$21.9 million and \$8.6 million and losses of \$0.9 million and \$2.0 million were realized on these sales during 2009 and 2008, respectively. Also impacting earnings in 2009 are other-than-temporary impairment charges related to credit loss on six pooled trust preferred securities and two non-agency mortgage-backed securities in the amount of \$15.3 million, described below.

**Table of Contents**

During the second quarter of 2009, approximately \$230.1 million of U.S. government-sponsored entity and agency securities were transferred from the available-for-sale portfolio to the held-to-maturity portfolio at fair value. The \$1.8 million unrealized holding gain at the date of transfer shall continue to be reported as a separate component of shareholders' equity and will be amortized over the remaining life of the securities as an adjustment of yield. Management evaluates securities for other-than-temporary impairment ( OTTI ) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320 (SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in FASB ASC 325-10 (EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets*).

In determining OTTI under the FASB ASC 320 (SFAS No. 115) model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. The second segment of the portfolio uses the OTTI guidance provided by FASB ASC 325-10 (EITF 99-20) that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the FASB ASC 325-10 model, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When other-than-temporary-impairment occurs under either model, the amount of the other-than-temporary-impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary-impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the other-than-temporary-impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary-impairment related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total other-than-temporary-impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary-impairment recognized in earnings shall become the new amortized cost basis of the investment.

**Table of Contents**

As of September 30, 2009, Old National's security portfolio consisted of 1,073 securities, 101 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's non-agency mortgage-backed and pooled trust preferred securities, as discussed below:

**Non-agency Mortgage-backed Securities**

At September 30, 2009, the Company's securities portfolio contained non-agency collateralized mortgage obligations with a market value of \$183.5 million which had net unrealized losses of approximately \$47.3 million. All of these securities are residential mortgage-backed securities. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of FASB ASC 325-10 (EITF 99-20). Two of these securities were downgraded during the quarter and as of September 30, 2009 ten of these securities were rated below investment grade with grades ranging from B to CC. Three of the ten securities are rated B and have a market value of \$28.8 million, four of the securities are rated CCC with a market value of \$35.6 million and three of the securities are rated CC with a market value of \$34.6 million. These securities were evaluated to determine if the underlying collateral is expected to experience loss, resulting in a principal write-down of the notes. As part of the evaluation, a detailed analysis of deal-specific data was obtained from remittance reports provided by the trustee and data from the servicer. The collateral was broken down into several distinct buckets based on loan performance characteristics in order to apply different assumptions to each bucket. The most significant drivers affecting loan performance were examined including original loan-to-value (LTV), underlying property location and the loan status. The loans in the current status bucket were further divided based on their original LTV: a high-LTV and a low-LTV group to which different default curves and severity percentages were applied. The high-LTV group was further bifurcated into loans originated in high-risk states and all other states and a higher default-curve and severity percentages were applied to loans originated in the high-risk states. Different default curves and severity rates were applied to the remaining non-current collateral buckets. Using these collateral-specific assumptions, a model was built to project the future performance of the instrument. Based on this analysis of the underlying collateral as of September 30, 2009, Old National recorded \$0.5 million of other-than-temporary impairment on these securities.

**Pooled Trust Preferred Securities**

Seven of the pooled trust preferred securities in our portfolio fall within the scope of FASB ASC 325-10 (EITF 99-20) and include \$19.9 million amortized cost. These securities were rated A2 and A3 at inception, but at September 30, 2009, Moody's rated one security Baa2, two securities Caa3 and four securities Ca. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National's note class. Upon completion of the September 30, 2009 analysis, our model indicated other-than-temporary impairment on six of these securities, all of which experienced additional defaults or deferrals during the third quarter. For the nine months ended September 30, 2009, these six securities had other-than-temporary-impairment losses of \$25.2 million, of which \$14.8 million was recorded as expense and \$10.4 million was recorded in other comprehensive income. At September 30, 2009, the book value of these six securities was \$18.8 million and they remained classified as available for sale. Together, the seven securities subject to FASB ASC 325-10 accounted for \$10.5 million of the unrealized loss in the pooled trust preferred securities category at September 30, 2009.



**Table of Contents**

The following table details the six pooled trust preferred securities with other-than-temporary-impairment, their credit rating at September 30, 2009 and the related credit losses recognized in earnings:

|  | Tropc<br>2003<br>Rated<br>Caa3 | MM<br>Community<br>Funding<br>IX<br>Rated<br>Caa3 | Reg Div<br>Funding<br>2004<br>Rated Ca | Pretsl<br>XII<br>Rated<br>Ca | Pretsl<br>XV<br>Rated<br>Ca | Reg Div<br>Funding<br>2005<br>Rated Ca | Total     |
|--|--------------------------------|---|--|------------------------------|-----------------------------|--|-----------|
| Amount of other-than-temporary-impairment related to credit loss at January 1, 2009    | \$                             | \$  | \$                                     | \$                           | \$                          | \$                                     | \$        |
| Addition   | 828                            | 282   | 1,281                                  |                              |                             |  | 2,391     |
| Amount of other-than-temporary-impairment related to credit loss at March 31, 2009     | 828                            | 282   | 1,281                                  |                              |                             |  | 2,391     |
| Addition   | 1,583                          | 1,178   | 2,915                                  | 895                          | 810                         | 483                                    | 7,864     |
| Amount of other-than-temporary-impairment related to credit loss at June 30, 2009      | 2,411                          | 1,460   | 4,196                                  | 895                          | 810                         | 483                                    | 10,255    |
| Addition   | 394                            | 1,152   | 110                                    | 517                          | 816                         | 1,581                                  | 4,570     |
| Amount of other-than-temporary-impairment related to credit loss at September 30, 2009 | \$ 2,805                       | \$ 2,612  | \$ 4,306                               | \$ 1,412                     | \$ 1,626                    | \$ 2,064                               | \$ 14,825 |

**NOTE 7 LOANS HELD FOR SALE**

Effective January 1, 2008, residential loans that Old National has committed to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). Prior to this, these residential loans had been recorded at the lower of cost or fair value. At September 30, 2009 and December 31, 2008, Old National had residential loans held for sale of \$11.4 million and \$17.2 million, respectively.

At June 30, 2009, Old National had finance leases held for sale of \$370.2 million. During the third quarter, \$258.0 million of these leases were sold at a price above par; however the transaction resulted in a loss of \$1.4 million after transaction fees. Approximately \$46.0 million of the remaining leases were transferred from held for sale back to the loan portfolio at the lower of cost or market and at September 30, 2009; \$58.4 million of finance leases remained available for sale. The leases held for sale have maturities ranging from 1 to 18 years and interest rates ranging from 3.76% to 9.73%. All of the leases held for sale are to municipalities, with various types of equipment securing the leases, and all of the leases are current.

During the first nine months of 2009, commercial and commercial real estate loans held for investment of \$2.6 million were reclassified to loans held for sale at the lower of cost or fair value and sold for \$2.0 million, resulting in a write-down on loans transferred to held for sale of \$0.6 million, which was recorded as a reduction to the allowance for loan losses. During the first nine months of 2008, commercial loans held for investment of \$2.2 million were reclassified to loans held for sale at the lower of cost or fair value and sold, with no write-down on the loans transferred.





**Table of Contents****NOTE 8 ALLOWANCE FOR LOAN LOSSES**

Activity in the allowance for loan losses was as follows:

| (dollars in thousands)                              | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2009                               | 2008      |
| Balance, January 1                                  | \$ 67,087                          | \$ 56,463 |
| Additions:  |                                    |           |
| Provision charged to expense                        | 41,459                             | 34,447    |
| Deductions:   |                                    |           |
| Write-downs from loans transferred to held for sale | 572                                |           |
| Loans charged-off                                   | 50,944                             | 35,345    |
| Recoveries  | (12,521)                           | (7,901)   |
| Net charge-offs                                     | 38,995                             | 27,444    |
| Balance, September 30                               | \$ 69,551                          | \$ 63,466 |

Individually impaired loans were as follows:

| (dollars in thousands)                                      | September<br>30,<br>2009                                       | December<br>31,<br>2008 |
|---|--|-------------------------|
|   | Impaired loans without an allowance for loan losses allocation | \$ 17,487               |
| Impaired loans with an allowance for loan losses allocation | 39,394   | 38,425                  |
| Total impaired loans  | \$ 56,881  | \$ 52,393               |

|   |           |           |
|---|-----------|-----------|
| Allowance for loan losses allocated to impaired loans | \$ 15,001 | \$ 13,599 |
|---|-----------|-----------|

For the nine months ended September 30, 2009 and 2008, the average balance of impaired loans was \$59.5 million and \$50.9 million, respectively, for which no interest income was recorded. No additional funds are committed to be advanced in connection with impaired loans. Loans deemed impaired are evaluated using the fair value of the underlying collateral.

Nonperforming loans were as follows:

| (dollars in thousands)                              | September<br>30,<br>2009 | December<br>31,<br>2008 |
|---|--------------------------|-------------------------|
|   | Nonaccrual loans         | \$ 73,701               |
| Total nonperforming loans                           | \$ 73,701                | \$ 64,041               |
| Past due loans (90 days or more and still accruing) | \$ 2,697                 | \$ 2,908                |

Nonperforming loans includes both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

From time to time, Old National may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a

troubled debt restructuring. Loans modified in a troubled debt restructuring are placed on nonaccrual status until the Company determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. At September 30, 2009, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled \$4.8 million. There were no loans modified in troubled debt restructurings at December 31, 2008.

**Table of Contents****NOTE 9 GOODWILL AND OTHER INTANGIBLE ASSETS**

The following table shows the changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2009 and 2008:

| (dollars in thousands)              | <b>Community<br/>Banking</b> | <b>Other</b> | <b>Total</b> |
|-------------------------------------|------------------------------|--------------|--------------|
| Balance, January 1, 2009            | \$ 119,325                   | \$ 39,873    | \$ 159,198   |
| Goodwill acquired during the period | 8,686                        |              | 8,686        |
| Balance, September 30, 2009         | \$ 128,011                   | \$ 39,873    | \$ 167,884   |
| Balance, January 1, 2008            | \$ 119,325                   | \$ 39,873    | \$ 159,198   |
| Adjustments to goodwill             |                              |              |              |
| Balance, September 30, 2008         | \$ 119,325                   | \$ 39,873    | \$ 159,198   |

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2009 and determined that no impairment existed as of this date. Old National recorded \$8.7 million of goodwill in 2009 associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group.

The gross carrying amount and accumulated amortization of other intangible assets at September 30, 2009 and December 31, 2008 was as follows:

| (dollars in thousands)          | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization<br/>and<br/>Impairment</b> | <b>Net<br/>Carrying<br/>Amount</b> |
|---------------------------------|--------------------------------------|--|------------------------------------|
| <b>September 30, 2009</b>       |                                      |  |                                    |
| Amortized intangible assets:    |                                      |  |                                    |
| Core deposit                    | \$ 26,810                            | \$ (9,733)   | \$ 17,077                          |
| Customer business relationships | 25,753                               | (11,686)   | 14,067                             |
| Customer loan relationships     | 4,413                                | (1,070)  | 3,343                              |
| Total intangible assets         | \$ 56,976                            | \$ (22,489)  | \$ 34,487                          |
| <b>December 31, 2008</b>        |                                      |  |                                    |
| Amortized intangible assets:    |                                      |  |                                    |
| Core deposit                    | \$ 15,623                            | \$ (7,203)   | \$ 8,420                           |
| Customer business relationships | 25,753                               | (10,189)   | 15,564                             |
| Customer loan relationships     | 4,413                                | (769)  | 3,644                              |
| Total intangible assets         | \$ 45,789                            | \$ (18,161)  | \$ 27,628                          |

Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 7 to 25 years. Old National recorded \$11.2 million of other intangibles associated with the acquisition of the branch banking network of Citizens Financial Group in the first quarter of 2009, which is included in the Community Banking

segment. During the first quarter of 2008, Old National recorded \$0.2 million of other intangibles associated with the purchase of an insurance book of business. The insurance subsidiary is included in Other for segment reporting. During the second quarter of 2008, Old National recorded \$0.7 million for impairment of intangibles due to the loss of a significant insurance client at one of its insurance subsidiaries. The insurance subsidiary is included in Other for segment reporting. Total amortization expense associated with other intangible assets for the nine months ended September 30 was \$4.3 million in 2009 and \$3.4 million in 2008.

Old National reviews intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. As of September 30, 2009, Old National was in the process of renegotiating a contract with a significant client at one of its insurance subsidiaries. The loss of this client could result in impairment of up to \$1.7 million associated with the intangible book of business during the fourth quarter.

**Table of Contents**

Estimated amortization expense for future years is as follows:

|                        |               |
|------------------------|---------------|
| (dollars in thousands) |               |
| 2009 remaining         | \$ 1,659      |
| 2010                   | 6,130         |
| 2011                   | 5,546         |
| 2012                   | 4,840         |
| 2013                   | 4,050         |
| Thereafter             | 12,262        |
| <br>Total              | <br>\$ 34,487 |

**NOTE 10 SHORT-TERM BORROWINGS**

The following table presents the distribution of Old National's short-term borrowings and related weighted-average interest rates as of September 30, 2009:

| (dollars in thousands)                      | Other                         |                          |                          | Total      |
|---|-------------------------------|--------------------------|--------------------------|------------|
|   | Federal<br>Funds<br>Purchased | Repurchase<br>Agreements | Short-term<br>Borrowings |            |
| <b>2009</b>                                 |                               |                          |                          |            |
| Outstanding at September 30, 2009           | \$ 416                        | \$ 316,893               | \$ 8,767                 | \$ 326,076 |
| Average amount outstanding                  | 207,172                       | 291,658                  | 95,514                   | 594,344    |
| Maximum amount outstanding at any month-end | 488,392                       | 316,893                  | 158,809                  |            |
| Weighted average interest rate:             |                               |                          |                          |            |
| During nine months ended September 30, 2009 | 0.20%                         | 0.21%                    | 0.52%                    | 0.26%      |
| At September 30, 2009                       |                               | 0.17                     |                          | 0.17       |

**Other Short-term Borrowings****Line of Credit**

During the second quarter of 2009, Old National entered into a \$30 million revolving credit facility at the parent level. The facility had an interest rate of LIBOR plus 2.00% and a maturity of 364 days. There was no amount outstanding as of September 30, 2009.

**Term Auction Facility**

On January 2, 2009, Old National borrowed \$100 million from the Federal Reserve under its Term Auction Facility. The borrowing had an interest rate of .20% and a maturity of 83 days. On January 15, 2009, Old National borrowed an additional \$50 million from the Federal Reserve under the Term Auction Facility. The additional borrowing had an interest rate of .25% and a maturity of 28 days. On February 12, 2009, the \$50 million borrowing was rolled over into new debt with an interest rate of .25% and a maturity date of March 12, 2009. On March 12, 2009, the \$50 million borrowing was rolled over into new debt with an interest rate of .25% and a maturity date of April 9, 2009. On April 9, 2009, the \$50 million debt matured and was replaced with \$100 million of new debt with an interest rate of .25% and a maturity date of May 7, 2009. On April 23, 2009, Old National borrowed an additional \$50 million with an interest rate of .25% and a maturity date of July 16, 2009. On June 4, 2009, Old National borrowed an additional \$50 million with an interest rate of .25% and a maturity date of July 2, 2009. There was no amount outstanding under the Term Auction Facility as of September 30, 2009.

**Treasury Investment Program**

As of September 30, 2009, Old National had \$8.8 million of Treasury funds under the Treasury Tax and Loan Account program. These funds typically have a short duration, are collateralized and can be withdrawn by the

Treasury Department at any time. At September 30, 2009, the effective interest rate on these funds was 0%.

**Table of Contents****NOTE 11 FINANCING ACTIVITIES**

The following table summarizes Old National's and its subsidiaries' other borrowings at September 30, 2009, and December 31, 2008:

| (dollars in thousands)   | September<br>30,<br>2009 | December 31,<br>2008 |
|--|--------------------------|----------------------|
| <b>Old National Bancorp:</b>   |                          |                      |
| Senior unsecured note (fixed rate 5.00%) maturing May 2010   | \$ 50,000                | \$ 50,000            |
| Junior subordinated debenture (fixed rates 6.27% to 8.00% and variable rate 3.33%) maturing April 2032 to March 2035 | 108,000                  | 108,000              |
| SFAS 133 fair value hedge and other basis adjustments  | (737)                    | (771)                |
| <b>Old National Bank:</b>  |                          |                      |
| Securities sold under agreements to repurchase (fixed rates 2.45% to 4.06%) maturing December 2010 to October 2012   | 99,000                   | 99,000               |
| Federal Home Loan Bank advances (fixed rates 2.11% to 8.34%) maturing October 2010 to January 2023                   | 397,600                  | 425,198              |
| Subordinated bank notes (fixed rate 6.75%) maturing October 2011   | 150,000                  | 150,000              |
| Capital lease obligation   | 4,360                    | 4,390                |
| SFAS 133 fair value hedge and other basis adjustments  | 388                      | (950)                |
| Total other borrowings   | \$ 808,611               | \$ 834,867           |

Contractual maturities of other borrowings at September 30, 2009, were as follows:

| (dollars in thousands)                                |            |
|---|------------|
| Due in 2009   | \$ 10      |
| Due in 2010   | 99,043     |
| Due in 2011   | 275,046    |
| Due in 2012   | 150,688    |
| Due in 2013   | 106,170    |
| Thereafter  | 178,003    |
| SFAS 133 fair value hedge and other basis adjustments | (349)      |
| Total   | \$ 808,611 |

**FEDERAL HOME LOAN BANK**

Federal Home Loan Bank advances had weighted-average rates of 3.81% and 3.81% at September 30, 2009, and December 31, 2008, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 150% of outstanding debt.

**SUBORDINATED BANK NOTES**

Subordinated bank notes qualify as Tier 2 Capital for regulatory purposes, subject to certain limitations, and are in accordance with the senior and subordinated global bank note program in which Old National Bank may issue and sell up to a maximum of \$1 billion. Notes issued by Old National Bank under the global note program are not obligations of, or guaranteed by, Old National Bancorp.

**JUNIOR SUBORDINATED DEBENTURES**

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





**Table of Contents**

Old National guarantees the payment of distributions on the trust preferred securities issued by ONB Capital Trust II. ONB Capital Trust II issued \$100 million in preferred securities in April 2002. The preferred securities have a liquidation amount of \$25 per share with a cumulative annual distribution rate of 8.0% or \$2.00 per share payable quarterly and maturing on April 15, 2032. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by ONB Capital Trust II. Old National may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole (or in part from time to time) on or after April 12, 2007. Costs associated with the issuance of these trust preferred securities totaling \$3.3 million in 2002 were capitalized and are being amortized through the maturity dates of the securities. The unamortized balance is included in other assets in the consolidated balance sheet.

During February 2007, Old National acquired St. Joseph Capital Trust I and St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust I and St. Joseph Capital Trust II. St. Joseph Capital Trust I issued \$3.0 million in preferred securities in July 2003. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 305 basis points, payable quarterly and maturing on July 11, 2033. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust I. St. Joseph Capital Trust II issued \$5.0 million in preferred securities in March 2005. The preferred securities have a cumulative annual distribution rate of 6.27% until March 2010 when it will carry a variable rate of interest priced at the three-month LIBOR plus 175 basis points, payable quarterly and maturing on March 17, 2035. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust II. Old National may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole (or in part from time to time) on or after September 30, 2008 (for debentures owned by St. Joseph Capital Trust I) and on or after March 31, 2010 (for debentures owned by St. Joseph Capital Trust II), and in whole (but not in part) following the occurrence and continuance of certain adverse federal income tax or capital treatment events.

**CAPITAL LEASE OBLIGATION**

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

At September 30, 2009, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)

|   |    |        |
|---|----|--------|
| 2009 remaining                              | \$ | 97     |
| 2010  |    | 390    |
| 2011  |    | 390    |
| 2012  |    | 390    |
| 2013  |    | 390    |
| Thereafter                                  |    | 11,314 |
| Total minimum lease payments                |    | 12,971 |
| Less amounts representing interest          |    | 8,611  |
| Present value of net minimum lease payments | \$ | 4,360  |

**NOTE 12 EMPLOYEE BENEFIT PLANS  
RETIREMENT PLAN**

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan ) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five years of employment. The freezing of the plan provides that future salary increases will not be considered. Old National's policy is to contribute at least the minimum funding requirement determined by the plan's actuary.

**Table of Contents**

Old National also maintains an unfunded pension restoration plan (the Restoration Plan) which provides benefits for eligible employees that are in excess of the limits under Section 415 of the Internal Revenue Code of 1986, as amended, that apply to the Retirement Plan. The Restoration Plan is designed to comply with the requirements of ERISA. The entire cost of the plan, which was also frozen as of December 31, 2005, is supported by contributions from the Company.

Old National contributed \$0.3 million to cover benefit payments from the Restoration Plan during the first nine months of 2009. Old National expects to contribute an additional \$0.1 million to cover benefit payments from the Restoration Plan during the remainder of 2009.

The net periodic benefit cost and its components were as follows for the three and nine months ended September 30:

| (dollars in thousands)         | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |          |
|--------------------------------|-------------------------------------|--------|------------------------------------|----------|
|                                | 2009                                | 2008   | 2009                               | 2008     |
| Interest cost                  | \$ 493                              | \$ 536 | \$ 1,479                           | \$ 1,607 |
| Expected return on plan assets | (483)                               | (792)  | (1,448)                            | (2,376)  |
| Recognized actuarial loss      | 363                                 | 158    | 1,089                              | 474      |
| Settlement                     |                                     | 375    |                                    | 809      |
| Net periodic benefit cost      | \$ 373                              | \$ 277 | \$ 1,120                           | \$ 514   |

**NOTE 13 STOCK-BASED COMPENSATION**

During May 2008, shareholders approved the Company's 2008 Incentive Compensation Plan which authorizes up to a maximum of 1.0 million shares plus certain shares covered under the 1999 Equity Incentive Plan. At September 30, 2009, 1.4 million shares remained available for issuance. The granting of awards to key employees is typically in the form of options to purchase capital stock or restricted stock.

*Stock Options*

The Company granted 177 thousand stock options during the first nine months of 2009. Using the Black-Scholes option pricing model, the Company estimated the fair value of these stock options to be \$0.3 million. The Company will expense this amount ratably over the three-year vesting period. The assumptions used in the option pricing model and the determination of stock option expense were an expected volatility of 28.8%; a risk free interest rate of 2.08%; an expected option term of six years; a 5.31% dividend yield; and a forfeiture rate of 7%. These options expire in ten years.

Old National recorded \$0.2 million of stock based compensation expense, net of tax, during the first nine months of 2009 as compared to \$0.2 million for the first nine months of 2008.

*Restricted Stock Awards*

The Company granted 80 thousand time-based restricted stock awards to certain key officers during 2009, with shares vesting at the end of a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of September 30, 2009, unrecognized compensation expense was estimated to be \$2.7 million for unvested restricted share awards.

Old National recorded expense of \$0.6 million, net of tax benefit, during the first nine months of 2009, compared to expense of \$0.8 million during the first nine months of 2008 related to the vesting of restricted share awards. Included in the first nine months of 2009 is the reversal of \$0.8 million of expense associated with certain performance-based restricted stock grants. Included in the first nine months of 2008 is the reversal of \$1.2 million of expense associated with certain performance-based restricted stock grants.

**Table of Contents***Restricted Stock Units*

The Company granted 106 thousand shares of performance based restricted stock units to certain key officers during 2009, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets.

Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. In addition, certain of the restricted stock units are subject to relative performance factors which could increase or decrease the percentage of shares issued.

Old National recorded \$0.2 million of stock based compensation expense, net of tax, during the first nine months of 2009. The Company did not grant restricted stock units in 2008.

**NOTE 14 INCOME TAXES**

Following is a summary of the major items comprising the differences in taxes from continuing operations computed at the federal statutory rate and as recorded in the consolidated statement of income for the three and nine months ended September 30:

| (dollars in thousands)                           | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2009                                | 2008     | 2009                               | 2008      |
| Provision at statutory rate of 35%               | \$ (260)                            | \$ 6,750 | \$ 4,753                           | \$ 20,102 |
| Tax-exempt income                                | (3,644)                             | (4,156)  | (11,874)                           | (11,850)  |
| Reversal of portion of unrecognized tax benefits | (706)                               |          | (706)                              | (6,611)   |
| State income taxes                               | (874)                               | (353)    | (2,355)                            | 5         |
| Other, net                                       | 724                                 | 30       | 705                                | (42)      |
| Income tax expense (benefit)                     | \$ (4,760)                          | \$ 2,271 | \$ (9,477)                         | \$ 1,604  |
| Effective tax rate                               | (640.6)%                            | 11.8%    | (69.8)%                            | 2.8%      |

For the three months ended September 30, 2009, the effective tax rate was lower than the three months ended September 30, 2008. The main factors for the decrease in the effective tax rate for the three months ended September 30, 2009, were that the tax-exempt income comprised a higher percentage of pre-tax income in the three months ended September 30, 2009 than at September 30, 2008, and the pre-tax income is lower than prior periods. For the nine months ended September 30, 2009, the effective tax rate was lower than the nine months ended September 30, 2008. The main factor for the decrease in the effective tax rate for the nine months ended September 30, 2009, was that the tax-exempt income comprised a higher percentage of pre-tax income in the nine months ended September 30, 2009 than at September 30, 2008.

No valuation allowance was recorded at September 30, 2009 and 2008 because, based on our current expectations, Old National believes that it will generate sufficient income in the future years to realize deferred tax credits.

**Unrecognized Tax Benefits**

The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. Unrecognized state income tax benefits are reported net of their related deferred federal income tax benefit. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

|  |             |
|--|-------------|
| (dollars in thousands)                                       | <b>2009</b> |
| Balance at January 1   | \$ 7,513    |
| Additions based on tax positions related to the current year | 81          |
| Reductions due to the 2005 statute of limitations expiring   | (651)       |
| Balance at September 30                                      | \$ 6,943    |

Approximately \$1.3 million of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods.



**Table of Contents****NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS**

As part of the Company's overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was \$250.0 million and \$55.1 million at September 30, 2009 and December 31, 2008, respectively. The September 30, 2009 balances consist of \$150.0 million notional amount of receive-fixed interest rate swaps on certain of its FHLB advances and \$100.0 million notional amount of receive-fixed interest rate swaps on certain commercial loans. These hedges were entered into to manage both interest rate risk and asset sensitivity on the balance sheet. These derivative instruments are recognized on the balance sheet at their fair value. The December 31, 2008 balances include \$55.1 million notional amount of receive-fixed interest rate swaps on certain of its retail and brokered certificates of deposit.

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At September 30, 2009, the notional amount of the interest rate lock commitments and forward commitments were \$23.5 million and \$32.0 million, respectively. At December 31, 2008, the notional amount of the interest rate lock commitments and forward commitments were \$20.6 million and \$37.0 million, respectively. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitment to fund the loans. All derivative instruments are recognized on the balance sheet at their fair value. Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were \$497.3 million and \$497.3 million, respectively, at September 30, 2009. At December 31, 2008, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were \$484.0 million and \$484.0 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps, foreign exchange forward contracts and commodity swaps and options. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

The following tables summarize the fair value of derivative financial instruments utilized by Old National:

|  | Asset Derivatives      |                 |                        |             |
|--|------------------------|-----------------|------------------------|-------------|
|  | September 30, 2009     |                 | December 31, 2008      |             |
| (dollars in thousands)                                     | Balance Sheet Location | Fair Value      | Balance Sheet Location | Fair Value  |
| <b>Derivatives designated as hedging instruments</b>       |                        |                 |                        |             |
| Interest rate contracts                                    | Other assets           | \$ 2,129        | Other assets           | \$ 1        |
| <b>Total derivatives designated as hedging instruments</b> |                        | <b>\$ 2,129</b> |                        | <b>\$ 1</b> |
| <b>Derivatives not designated as hedging instruments</b>   |                        |                 |                        |             |
| Interest rate contracts                                    | Other assets           | \$ 33,888       | Other assets           | \$ 45,737   |
| Commodity contracts  | Other assets           |                 | Other assets           | 130         |
| Foreign exchange contracts                                 | Other assets           | 2               | Other assets           | 441         |

|  |              |                  |              |                  |
|--|--------------|------------------|--------------|------------------|
| Mortgage contracts   | Other assets | <b>501</b>       | Other assets | 459              |
| <b>Total derivatives not designated as hedging instruments</b> |              | <b>\$ 34,391</b> |              | <b>\$ 46,767</b> |
| Total derivative assets  |              | <b>\$ 36,520</b> |              | <b>\$ 46,768</b> |



**Table of Contents**

|  | <b>Liability Derivatives</b>          |                       |                                       |                       |
|--|---------------------------------------|-----------------------|---------------------------------------|-----------------------|
|  | <b>September 30, 2009</b>             |                       | <b>December 31, 2008</b>              |                       |
|  | <b>Balance<br/>Sheet<br/>Location</b> | <b>Fair<br/>Value</b> | <b>Balance<br/>Sheet<br/>Location</b> | <b>Fair<br/>Value</b> |
| (dollars in thousands)   |                                       |                       |                                       |                       |
| <b>Derivatives designated as hedging instruments</b>           |                                       |                       |                                       |                       |
| Interest rate contracts  | Other liabilities                     | \$ 65                 | Other liabilities                     | \$                    |
| <b>Total derivatives designated as hedging instruments</b>     |                                       | <b>\$ 65</b>          |                                       | <b>\$</b>             |
| <b>Derivatives not designated as hedging instruments</b>       |                                       |                       |                                       |                       |
| Interest rate contracts  | Other liabilities                     | \$ 34,195             | Other liabilities                     | \$ 46,338             |
| Commodity contracts  | Other liabilities                     |                       | Other liabilities                     | 130                   |
| Foreign exchange contracts                                     | Other liabilities                     | 2                     | Other liabilities                     | 441                   |
| Mortgage contracts   | Other liabilities                     | 306                   | Other liabilities                     | 505                   |
| <b>Total derivatives not designated as hedging instruments</b> |                                       | <b>\$ 34,503</b>      |                                       | <b>\$ 47,414</b>      |
| <b>Total derivative liabilities</b>                            |                                       | <b>\$ 34,568</b>      |                                       | <b>\$ 47,414</b>      |

The effect of derivative instruments on the Consolidated Statement of Income for the three and nine months ended September 30, 2009 and 2008 are as follows:

|  | <b>Location of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> | <b>Three months ended</b>     |                               |
|--|--|-------------------------------|-------------------------------|
|  |  | <b>September 30,<br/>2009</b> | <b>September 30,<br/>2008</b> |
| (dollars in thousands)                                 |  |                               |                               |
| <b>Derivatives in Fair Value Hedging Relationships</b> |  |                               |                               |
| Interest rate contracts (1)                            | Interest income / (expense)  | \$                            | \$ 34                         |
| Interest rate contracts (2)                            | Other income / (expense)   | <b>309</b>                    | 128                           |
| <b>Total</b>   |  | <b>\$ 309</b>                 | <b>\$ 162</b>                 |
| <b>Derivatives in Cash Flow Hedging Relationships</b>  |  |                               |                               |
| Interest rate contracts (1)                            | Interest income / (expense)  | \$                            | <b>389</b> \$                 |
| <b>Total</b>   |  | <b>\$ 389</b>                 | <b>\$</b>                     |

| <b>Derivatives Not Designated as Hedging Instruments</b> | <b>Location of Gain or (Loss) Recognized in Income on Derivative</b> | <b>Amount of Gain or (Loss) Recognized in Income on Derivative</b> |               |
|--|--|--|---------------|
| Interest rate contracts (1)                              | Interest income / (expense)  | \$   | \$ 95         |
| Interest rate contracts (3)                              | Other income / (expense)   |  | (984) (314)   |
| Mortgage contracts                                       | Mortgage banking revenue   |  | (321) 287     |
| Total  |  | \$   | (1,305) \$ 68 |

**Table of Contents**

| (dollars in thousands)   |  | <b>Nine months<br/>ended<br/>September 30,<br/>2009</b>                    | <b>Nine months<br/>ended<br/>September 30,<br/>2008</b> |
|--|--|--|---|
| <b>Derivatives in<br/>Fair Value Hedging<br/>Relationships</b> | <b>Location of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> | <b>Amount of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> |   |
| Interest rate contracts (1)                                    | Interest income / (expense)  | \$ 630   | \$ 710  |
| Interest rate contracts (2)                                    | Other income / (expense)   | 381  | 199   |
| Total  |  | \$ 1,011   | \$ 909  |
| <b>Derivatives in<br/>Cash Flow Hedging<br/>Relationships</b>  | <b>Location of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> | <b>Amount of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> |   |
| Interest rate contracts (1)                                    | Interest income / (expense)  | \$ 860   | \$  |
| Total  |  | \$ 860   | \$  |
| <b>Derivatives Not Designated as<br/>Hedging Instruments</b>   | <b>Location of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> | <b>Amount of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> |   |
| Interest rate contracts (1)                                    | Interest income / (expense)  | \$ (428)   | \$ 218  |
| Interest rate contracts (3)                                    | Other income / (expense)   | (57)   | (1,358)   |
| Mortgage contracts   | Mortgage banking revenue   | 241  | 172   |
| Total  |  | \$ (244)   | \$ (968)  |

(1) Amounts represent the net interest payments as stated in the contractual agreements.

(2) Amounts represent ineffectiveness on derivatives designated as fair value hedges.

(3)

Includes both the valuation differences between the customer and offsetting counterparty swaps as well as the change in the value of the derivative instruments entered into to offset the change in fair value of certain retail certificates of deposit which the company elected to record at fair value. See Note 19 to the consolidated financial statements.

**NOTE 16 COMMITMENTS AND CONTINGENCIES  
LITIGATION**

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

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

In November 2002, several beneficiaries of certain trusts filed a complaint against Old National Bancorp and Old National Trust Company in the United States District Court for the Western District of Kentucky relating to the administration of the trusts in 1997. The complaint, as amended, alleged that Old National (through a predecessor), as trustee, mismanaged termination of a lease between the trusts and a tenant mining company. The complaint seeks, among other relief, unspecified damages, (costs and expenses, including attorneys' fees, and such other relief as the court might find just and proper.) On March 25, 2009, the Court granted summary judgment to Old National concluding that the plaintiffs do not have standing to sue Old National in this matter. The plaintiffs subsequently filed a motion to alter or amend the judgment with the Court. The Plaintiffs motion to alter or amend the judgment was granted by the Court on July 29, 2009, reversing the Court's March 25, 2009 Order as to standing. The July 29, 2009 Order also permits Old National to file a new motion for summary judgment with respect to issues that have not been resolved by the Court. Old National filed its motion for summary judgment on August 28, 2009. Plaintiffs, by their

counsel, have also filed a motion for partial summary judgment as well as a motion to amend their complaint. The briefing schedule on the motions is now complete and the matters are now ripe for the judge to rule. Old National continues to believe that it has meritorious defenses to each of the claims in the lawsuit and intends to continue to vigorously defend the lawsuit. There can be no assurance, however, that Old National will be successful, and an adverse resolution of the lawsuit could have a material adverse effect on its consolidated financial position and results of operations in the period in which the lawsuit is resolved. Old National is not presently able to reasonably estimate potential losses, if any, related to the lawsuit and has not recorded a liability in its accompanying Consolidated Balance Sheets.

**Table of Contents**

**LEASES**

In December 2006, Old National entered into a sale leaseback agreement with an unrelated third party for its three main buildings in downtown Evansville, Indiana. Old National sold assets with a carrying value of \$69.9 million, received approximately \$79.0 million in cash and incurred \$0.4 million of selling costs. The \$8.7 million deferred gain will be amortized over the term of the lease. The agreement requires rent payments of approximately \$6.6 million per year over the next 23 years.

During 2007, seventy-three financial centers were sold in a series of sale leaseback transactions to an unrelated party. Old National received cash proceeds of \$176.3 million, net of selling costs. The properties sold had a carrying value of \$65.3 million, resulting in a gain of \$111.1 million. In 2007, \$4.7 million of this gain was recognized, the remainder has been deferred and is being amortized over the term of the leases. The leases have terms of ten to twenty-four years, and Old National has the right, at its option, to extend the term of the leases for four additional successive terms of five years each, upon specified terms and conditions. Under the lease agreements, Old National is obligated to pay base rents for the properties in an aggregate annual amount of \$14.1 million per year.

In addition, Old National sold an office building located in Evansville, Indiana to an unrelated party in a separate transaction during 2007. This transaction resulted in cash proceeds of \$3.4 million, net of selling costs. The property had a carrying value of \$3.7 million, resulting in a loss of \$0.3 million. Old National agreed to lease back the building for a term of five years. Under the lease agreement, Old National is obligated to pay a base rent of \$0.4 million per year.

During 2008, Old National sold eight financial centers in a series of sale leaseback transactions to unrelated parties. Old National received cash proceeds of \$15.9 million, net of selling costs. The properties sold had a carrying value of \$12.0 million. The \$3.9 million deferred gain will be amortized over the term of the leases. The leases have terms of fifteen to twenty years. Under the lease agreements, Old National is obligated to pay a base rent of \$1.5 million per year.

During 2009, Old National sold three financial centers in sale leaseback transactions to unrelated parties. Old National received cash proceeds of \$4.8 million, net of selling costs. The properties sold had a carrying value of \$4.3 million. The \$0.5 million deferred gain will be amortized over the term of the leases. The leases have terms of fifteen and twenty years. Under the lease agreements, Old National is obligated to pay a base rent of \$0.4 million per year.

In March 2009, Old National acquired the Indiana retail branch banking network of Citizens Financial Group. The network included 65 leased locations. Old National intends to close or merge 11 of these locations into existing branch locations during 2009. The leases have term of less than one year to ten years. Under the lease agreements, Old National is obligated to pay a base rent of approximately \$2.6 million per year.

**CREDIT-RELATED FINANCIAL INSTRUMENTS**

In the normal course of business, Old National's banking affiliates have entered into various agreements to extend credit, including loan commitments of \$1.040 billion and standby letters of credit of \$104.5 million at September 30, 2009. At September 30, 2009, approximately \$990 million of the loan commitments had fixed rates and \$50 million had floating rates, with the fixed interest rates ranging from 0% to 18%. At December 31, 2008, loan commitments were \$1.124 billion and standby letters of credit were \$108.4 million. These commitments are not reflected in the consolidated financial statements. At September 30, 2009 and December 31, 2008, the balance of the allowance for unfunded loan commitments was \$4.7 million and \$3.5 million, respectively.

**Table of Contents**

At September 30, 2009 and December 31, 2008 Old National had credit extensions of \$27.0 million and \$29.0 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients. At September 30, 2009 and December 31, 2008, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling \$23.9 million and \$25.0 million, respectively. Old National did not provide collateral for the remaining credit extensions.

**NOTE 17 FINANCIAL GUARANTEES**

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At September 30, 2009, the notional amount of standby letters of credit was \$104.5 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.6 million. During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap has a notional amount of \$9.4 million at September 30, 2009.

**NOTE 18 SEGMENT INFORMATION**

Old National operates in two operating segments: community banking and treasury. The community banking segment serves customers in both urban and rural markets providing a wide range of financial services including commercial, real estate and consumer loans; lease financing; checking, savings, time deposits and other depository accounts; cash management services; and debit cards and other electronically accessed banking services and Internet banking. Treasury manages investments, wholesale funding, interest rate risk, liquidity and leverage for Old National.

Additionally, treasury provides other miscellaneous capital markets products for its corporate banking clients. Other is comprised of the parent company and several smaller business units including insurance, wealth management and brokerage. It includes unallocated corporate overhead and intersegment revenue and expense eliminations.

In order to measure performance for each segment, Old National allocates capital and corporate overhead to each segment. Capital and corporate overhead are allocated to each segment using various methodologies, which are subject to periodic changes by management. Intersegment sales and transfers are not significant.

Old National uses a funds transfer pricing (FTP) system to eliminate the effect of interest rate risk from net interest income in the community banking segment and from companies included in the other column. The FTP system is used to credit or charge each segment for the funds the segments create or use. The net FTP credit or charge is reflected in segment net interest income.

The financial information for each operating segment is reported on the basis used internally by Old National's management to evaluate performance and is not necessarily comparable with similar information for any other financial institution.

**Table of Contents**

Summarized financial information concerning segments is shown in the following table for the three and nine months ended September 30:

| (dollars in thousands)                       | <b>Community<br/>Banking</b> | <b>Treasury</b> | <b>Other</b> | <b>Total</b> |
|--|------------------------------|-----------------|--------------|--------------|
| <b>Three months ended September 30, 2009</b> |                              |                 |              |              |
| Net interest income                          | \$ 78,037                    | \$ (17,486)     | \$ (4,140)   | \$ 56,411    |
| Provision for loan losses                    | 12,203                       | (12)            |              | 12,191       |
| Noninterest income                           | 23,593                       | 40              | 15,370       | 39,003       |
| Noninterest expense                          | 69,886                       | 780             | 13,300       | 83,966       |
| Income (loss) before income taxes            | 19,541                       | (18,214)        | (2,070)      | (743)        |
| Total assets                                 | 4,372,760                    | 3,484,265       | 116,467      | 7,973,492    |
| <b>Three months ended September 30, 2008</b> |                              |                 |              |              |
| Net interest income                          | \$ 63,799                    | \$ (3,537)      | \$ (666)     | \$ 59,596    |
| Provision for loan losses                    | 6,508                        | 334             |              | 6,842        |
| Noninterest income                           | 21,228                       | 2,319           | 15,448       | 38,995       |
| Noninterest expense                          | 55,856                       | 742             | 15,865       | 72,463       |
| Income before income taxes                   | 22,663                       | (2,294)         | (1,083)      | 19,286       |
| Total assets                                 | 4,892,941                    | 2,569,476       | 105,871      | 7,568,288    |
| <b>Nine months ended September 30, 2009</b>  |                              |                 |              |              |
| Net interest income                          | \$ 214,278                   | \$ (32,022)     | \$ (5,880)   | \$ 176,376   |
| Provision for loan losses                    | 41,481                       | 73              | (95)         | 41,459       |
| Noninterest income                           | 70,294                       | 7,548           | 49,002       | 126,844      |
| Noninterest expense                          | 197,557                      | 5,038           | 45,586       | 248,181      |
| Income before income taxes                   | 45,534                       | (29,585)        | (2,369)      | 13,580       |
| Total assets                                 | 4,372,760                    | 3,484,265       | 116,467      | 7,973,492    |
| <b>Nine months ended September 30, 2008</b>  |                              |                 |              |              |
| Net interest income                          | \$ 191,852                   | \$ (9,218)      | \$ (1,904)   | \$ 180,730   |
| Provision for loan losses                    | 33,887                       | 560             |              | 34,447       |
| Noninterest income                           | 61,711                       | 14,198          | 53,475       | 129,384      |
| Noninterest expense                          | 163,964                      | 3,225           | 51,044       | 218,233      |
| Income (loss) before income taxes            | 55,712                       | 1,195           | 527          | 57,434       |
| Total assets                                 | 4,892,941                    | 2,569,476       | 105,871      | 7,568,288    |

**NOTE 19 FAIR VALUE**

Effective January 1, 2008, the Company adopted FASB ASC 820-10 (SFAS No. 157) and FASB ASC 825-10 (SFAS No. 159). Both standards address aspects of the expanding application of fair value accounting. FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

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

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



by observable market data.

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

**Table of Contents**

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

**Investment securities:** The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and libor curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

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

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

**Deposits:** The fair value of retail certificates of deposit is estimated by discounting future cash flows using rates currently offered for deposits with similar remaining maturities (Level 2).

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

|   | Carrying Value | Fair Value Measurements at September 30, 2009                  |   |   |
|---|----------------|--|---|---|
|   |                | Quoted Prices in Active Markets for Identical Assets (Level 1) | Using Significant Other Observable Inputs (Level 2) | Using Significant Unobservable Inputs (Level 3) |
| (dollars in thousands)                          |                |  |   |   |
| <b>Financial Assets</b>                         |                |  |   |   |
| Investment securities available-for-sale:       |                |  |   |   |
| U.S. Treasury                                   | \$ 101,359     |  | \$ 101,359  |   |
| U.S. Government-sponsored entities and agencies | 975,737        |  | 975,737   |   |
| Mortgage-backed securities Agency               | 684,843        |  | 684,843   |   |
| Mortgage-backed securities Non-agency           | 183,488        |  | 183,488   |   |
| States and political subdivisions               | 494,153        |  | 494,153   |   |
| Pooled trust preferred securities               | 16,030         |  |   | 16,030  |
| Other securities                                | 162,841        |  | 162,841   |   |
| Residential loans held for sale                 | 11,365         |  | 11,365  |   |
| Derivative assets                               | 36,520         |  | 36,520  |   |
| <b>Financial Liabilities</b>                    |                |  |   |   |
| Derivative liabilities                          | 34,568         |  | 34,568  |   |

**Table of Contents**

|   | <b>Fair Value Measurements at December 31, 2008</b> |   |  |        |
|---|---|---|--|--------|
|   | <b>Carrying<br/>Value</b>                           | <b>Quoted<br/>Prices in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Using<br/>Significant</b>                                 |        |
| <b>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b>                    |   |   | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |        |
| (dollars in thousands)  |   |   |  |        |
| <b>Financial Assets</b>   |   |   |  |        |
| Investment securities available-for-sale:                               |   |   |  |        |
| U.S. Government-sponsored entities and agencies                         | \$ 389,278  |   | \$ 389,278   |        |
| Mortgage-backed securities Agency                                       | 864,761   |   | 864,761  |        |
| Mortgage-backed securities Non-agency States and political subdivisions | 216,858   |   | 216,858  |        |
| Pooled trust preferred securities                                       | 482,204   |   | 482,204  |        |
| Other securities  | 19,667  |   |  | 19,667 |
| Residential loans held for sale   | 152,258   |   | 152,258  |        |
| Derivative assets   | 17,155  |   | 17,155   |        |
|   | 46,768  |   | 46,768   |        |
| <b>Financial Liabilities</b>  |   |   |  |        |
| Certain retail certificates of deposit                                  | 49,309  |   | 49,309   |        |
| Derivative liabilities  | 47,414  |   | 47,414   |        |

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2009:

|   | <b>Fair Value<br/>Measurements<br/>using Significant<br/>Unobservable Inputs<br/>(Level 3)<br/>Pooled Trust Preferred<br/>Securities Available-<br/>for-Sale</b> |
|---|--|
| (dollars in thousands)                        |  |
| Beginning balance, January 1, 2009            | \$ 19,667  |
| Accretion/amortization of discount or premium | (61)   |
| Payments received                             | (99)   |
| Credit loss write-downs                       | (14,825)   |
| Increase/decrease in fair value of securities | 11,348   |
| Ending balance, September 30, 2009            | \$ 16,030  |

Included in the income statement is \$61 thousand in interest expense from the amortization of net premiums on securities. The increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for sale, an increase in accumulated other comprehensive income, which is included in

shareholders' equity, and a decrease in other assets related to the tax impact.  
 Assets measured at fair value on a non-recurring basis are summarized below:

**Fair Value Measurements at September 30, 2009**

|                         | Carrying<br>Value | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Using<br>Significant                       |  |
|-------------------------|-------------------|---|--|--|
|                         |                   |   | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (dollars in thousands)  |                   |   |  |  |
| <b>Financial Assets</b> |                   |   |  |  |
| Impaired loans          | \$ 24,393         |   |  | \$ 24,393  |

Impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of \$39.4 million, with a valuation allowance of \$15.0 million at September 30, 2009.

**Table of Contents****Fair Value Measurements at December 31, 2008**

|                         | Carrying<br>Value | Using<br>Significant  |  |  |
|-------------------------|-------------------|---|--|--|
|                         |                   | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (dollars in thousands)  |                   |   |  |  |
| <b>Financial Assets</b> |                   |   |  |  |
| Impaired loans          | \$ 24,826         |   |  | \$ 24,826  |

Impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of \$38.4 million, with a valuation allowance of \$13.6 million at December 31, 2008.

**Financial instruments recorded using FASB ASC 825-10**

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

Additionally, the transition provisions of FASB ASC 825-10 permit a one-time election for existing positions at the adoption date with a cumulative-effect adjustment included in beginning retained earnings and future changes in fair value reported in net income. The Company did not elect the fair value option for any existing position at January 1, 2008.

The Company did elect the fair value option prospectively for the following items:

Residential mortgage loans held for sale

Certain retail certificates of deposit

For items for which the fair value option has been elected, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on financial assets (except any that are on nonaccrual status). Included in the income statement are \$180 thousand and \$527 thousand of interest income for residential loans held for sale for the three and nine months ended September 30, 2009, respectively. Included in the income statement are \$122 thousand and \$342 thousand of interest income for residential loans held for sale for the three and nine months ended September 30, 2008, respectively. Interest expense is recorded based on the contractual amount of interest expense incurred. The income statement includes \$0 and \$73 thousand of interest expense for the three and nine months ended September 30, 2009, respectively, for certain retail certificates of deposit. The income statement includes \$437 thousand and \$1.0 million of interest expense for the three and nine months ended September 30, 2008, respectively, for certain retail certificates of deposit.

**Residential mortgage loans held for sale**

Old National has elected the fair value option for newly originated conforming fixed-rate and adjustable-rate first mortgage loans held for sale. These loans are intended for sale and are hedged with derivative instruments. None of these loans are 90 days or more past due, nor are any on nonaccrual status. Old National has elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification. The fair value option was not elected for loans held for investment. This election was effective for applicable loans originated after January 1, 2008.

**Certain retail certificates of deposit**

Old National has elected the fair value option for certain retail certificates of deposit; specifically, pools of retail certificates of deposit that have been matched with derivative instruments. Old National has elected the fair value

option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification. This election was adopted prospectively for certain retail certificates of deposit originated after January 1, 2008. At September 30, 2009, there were no retail certificates of deposit accounted for under the fair value option.

**Table of Contents**

As of September 30, 2009, the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected is as follows. Accrued interest at period end is included in the fair value of the instruments.

| (dollars in thousands)          | Aggregate<br>Fair Value | Difference | Contractual<br>Principal |
|---------------------------------|-------------------------|------------|--------------------------|
| Residential loans held for sale | \$ 11,365               | \$ 383     | \$ 10,982                |

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the three and nine months ended September 30, 2009:

**Changes in Fair Value for the Three Months ended September 30, 2009, for Items  
Measured at Fair Value Pursuant to Election of the Fair Value Option**

| (dollars in thousands)          | Other<br>Gains and<br>(Losses) | Interest<br>Income | Interest<br>(Expense) | Total Changes<br>in Fair Values<br>Included in<br>Current<br>Period<br>Earnings |
|---------------------------------|--------------------------------|--------------------|-----------------------|---|
| Residential loans held for sale | \$ (177)                       | \$ 379             | \$                    | \$ 202  |

**Changes in Fair Value for the Nine Months ended September 30, 2009, for Items  
Measured at Fair Value Pursuant to Election of the Fair Value Option**

| (dollars in thousands)          | Other<br>Gains and<br>(Losses) | Interest<br>Income | Interest<br>(Expense) | Total Changes<br>in Fair Values<br>Included in<br>Current<br>Period<br>Earnings |
|---------------------------------|--------------------------------|--------------------|-----------------------|---|
| Residential loans held for sale | \$ (579)                       | \$ 383             | \$                    | \$ (196)  |

As of December 31, 2008, the difference between the aggregate fair value and the aggregate remaining principal balance for loans and certificates of deposit for which the fair value option has been elected was as follows. Accrued interest at period end is included in the fair value of the instruments.

| (dollars in thousands)                 | Aggregate<br>Fair Value | Difference | Contractual<br>Principal |
|--|-------------------------|------------|--------------------------|
| Residential loans held for sale        | \$ 17,155               | \$ 579     | \$ 16,576                |
| Certain retail certificates of deposit | 49,309                  | 837        | 48,472                   |

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the three and nine months ended September 30, 2008:

**Changes in Fair Value for the Three Months ended September 30, 2008, for Items  
Measured at Fair Value Pursuant to Election of the Fair Value Option**

| Other<br>Gains and | Interest | Interest | Total Changes<br>in Fair Values<br>Included in<br>Current<br>Period |
|--------------------|----------|----------|---|
|--------------------|----------|----------|---|

Edgar Filing: OLD NATIONAL BANCORP /IN/ - Form 10-Q

(dollars in thousands)

|  | <b>(Losses)</b> | <b>Income</b> | <b>(Expense)</b> | <b>Earnings</b> |
|--|-----------------|---------------|------------------|-----------------|
| Residential loans held for sale        | \$ (48)         | \$            | \$               | \$ (48)         |
| Certain retail certificates of deposit | 40              |               | (367)            | (327)           |



**Table of Contents****Changes in Fair Value for the Nine Months ended September 30, 2008, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option**

| (dollars in thousands)                 | <b>Other</b>                  |                            |                               | <b>Total Changes<br/>in Fair Values<br/>Included in<br/>Current<br/>Period<br/>Earnings</b> |
|--|-------------------------------|----------------------------|-------------------------------|---|
|  | <b>Gains and<br/>(Losses)</b> | <b>Interest<br/>Income</b> | <b>Interest<br/>(Expense)</b> |   |
| Residential loans held for sale        | \$ 238                        | \$ 3                       | \$                            | \$ 241  |
| Certain retail certificates of deposit | 498                           |                            | (208)                         | 290   |

The carrying amounts and estimated fair values of financial instruments, not previously presented, at September 30, 2009 and December 31, 2008 are as follows:

| (dollars in thousands)  | <b>Carrying<br/>Value</b> | <b>Fair<br/>Value</b> |
|---|---------------------------|-----------------------|
| <b>September 30, 2009</b>   |                           |                       |
| <b>Financial Assets</b>   |                           |                       |
| Cash, due from banks, federal funds sold and money market investments | \$ 225,728                | \$ 225,728            |
| Investment securities held-to-maturity                                | 305,902                   | 313,272               |
| Federal Home Loan Bank stock  | 36,090                    | 36,090                |
| Finance leases held for sale  | 58,394                    | 58,394                |
| Loans, net (including impaired loans)                                 | 3,966,115                 | 4,153,268             |
| Accrued interest receivable   | 45,281                    | 45,281                |
| <b>Financial Liabilities</b>  |                           |                       |
| Deposits  | \$ 5,694,355              | \$ 5,742,761          |
| Short-term borrowings   | 326,076                   | 326,075               |
| Other borrowings  | 808,611                   | 836,150               |
| Accrued interest payable  | 15,960                    | 15,960                |
| Standby letters of credit   | 594                       | 594                   |
| <b>Off-Balance Sheet Financial Instruments</b>                        |                           |                       |
| Commitments to extend credit  | \$                        | \$ 2,081              |

| (dollars in thousands)  | <b>Carrying<br/>Value</b> | <b>Fair<br/>Value</b> |
|---|---------------------------|-----------------------|
| <b>December 31, 2008</b>  |                           |                       |
| <b>Financial Assets</b>   |                           |                       |
| Cash, due from banks, federal funds sold and money market investments | \$ 193,012                | \$ 193,012            |
| Investment securities held-to-maturity                                | 99,661                    | 100,831               |
| Federal Home Loan Bank stock  | 41,090                    | 41,090                |
| Loans, net (including impaired loans)                                 | 4,693,272                 | 4,997,869             |
| Accrued interest receivable   | 49,030                    | 49,030                |
| <b>Financial Liabilities</b>  |                           |                       |
| Deposits  | \$ 5,372,978              | \$ 5,425,134          |
| Short-term borrowings   | 649,623                   | 649,610               |
| Other borrowings  | 834,867                   | 850,569               |

|  |        |          |
|--|--------|----------|
| Accrued interest payable                       | 14,954 | 14,954   |
| Standby letters of credit                      | 494    | 494      |
| <b>Off-Balance Sheet Financial Instruments</b> |        |          |
| Commitments to extend credit                   | \$     | \$ 1,614 |

**Table of Contents**

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

**Cash, due from banks, federal funds sold and resell agreements and money market investments:** For these instruments, the carrying amounts approximate fair value.

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

**Federal Home Loan Bank Stock:** The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

**Loans:** The fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

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

**Short-term borrowings:** Federal funds purchased and other short-term borrowings generally have an original term to maturity of 30 days or less and, therefore, their carrying amount is a reasonable estimate of fair value. The fair value of securities sold under agreements to repurchase is estimated by discounting future cash flows using current interest rates.

**Other borrowings:** The fair value of medium-term notes, subordinated debt and senior bank notes is determined using market quotes. The fair value of FHLB advances is determined using quoted prices for new FHLB advances with similar risk characteristics. The fair value of other debt is determined using comparable security market prices or dealer quotes.

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

**Off-balance sheet financial instruments:** Fair values for off-balance sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements. For further information regarding the notional amounts of these financial instruments, see Notes 16 and 17.

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

The following discussion is an analysis of our results of operations for the three and nine months ended September 30, 2009 and 2008, and financial condition as of September 30, 2009, compared to September 30, 2008, and December 31, 2008. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business that are based on estimates and involves certain risks and uncertainties. Therefore, future results could differ significantly from our current expectations and the related forward-looking statements.

In June 2009, the FASB issued Statement No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FASB ASC 105-10, Generally Accepted Accounting Principles). SFAS No. 168 replaces SFAS No. 162 and establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Rules and interpretative releases of the Securities and Exchange Commission under federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB Accounting Standards Codification will be effective for financial statements that cover interim and annual periods ending after September 15, 2009. Other than resolving certain minor inconsistencies in current GAAP, the FASB Accounting Standards Codification is not intended to change GAAP, but rather to make it easier to review and research GAAP applicable to a particular transaction or accounting issue. Technical references to generally accepted accounting principles included in this Form 10-Q are provided under the new FASB ASC structure with the prior terminology included parenthetically.

**EXECUTIVE SUMMARY**

During the third quarter we significantly strengthened our capital position with a successful stock offering. Net proceeds from the issuance of 20.7 million shares were approximately \$196.4 million. Our tier one and total risk-based regulatory capital ratios improved from 10.2% and 12.6% at June 30, 2009, to 14.1% and 16.5% at September 30, 2009.

Although non-performing, problem and special mention loan categories showed improvement during the third quarter, the overall credit environment remains challenging and we expect it to remain that way for the near term. We recorded provision expense of \$12.2 million during the third quarter. As a percent of total loans, the allowance was 1.72% at September 30, 2009, compared to 1.41% and 1.36% at December 31, 2008 and September 30, 2008, respectively. Annualized net charge-offs were 1.17% of average loans in the third quarter of 2009 compared to 1.14% in the fourth quarter of 2008, and 0.46% year-over-year. Nonperforming loans totaled 1.80% of total loans at September 30, 2009, compared to 1.34% at December 31, 2008 and 1.46% a year ago.

Third quarter results include the sale of a \$258 million municipal lease portfolio, securities gains of \$5.1 million, other-than-temporary impairment of securities of \$5.1 million, elevated credit costs and net interest margin compression as a result of soft loan demand, the sale of the aforementioned municipal lease portfolio and reduced earnings from our investment portfolio. Net income for the third quarter of 2009 is \$4.0 million, compared to \$6.6 million and \$17.0 million for the quarters ended December 31, 2008 and September 30, 2008, respectively. Net interest margin in the third quarter of 2009 was 3.53% compared to 3.59% during the second quarter of 2009, and 3.79% year-over-year.

We believe the economy is in a very deep and long lasting recession and the effects on our industry will be felt for an extended period of time. We believe that Old National is well positioned to not only withstand, but to capitalize on the industry challenges based on a number of the strategic actions we have taken. While loan demand remains soft as evidenced by the decrease in our loan portfolio it is management's intent to focus on streamlining current processes and gain efficiency improvements.

**Table of Contents****RESULTS OF OPERATIONS**

The following table sets forth certain income statement information of Old National for the three and nine months ended September 30, 2009 and 2008:

| (dollars in thousands)           | Three Months Ended |                    | %      | Nine Months Ended  |                    | %      |
|----------------------------------|--------------------|--------------------|--------|--------------------|--------------------|--------|
|                                  | September 30, 2009 | September 30, 2008 |        | September 30, 2009 | September 30, 2008 |        |
| <b>Income Statement</b>          |                    |                    |        |                    |                    |        |
| <b>Summary:</b>                  |                    |                    |        |                    |                    |        |
| Net interest income              | \$ 56,411          | \$ 59,596          | (5.3)% | \$ 176,376         | \$ 180,730         | (2.4)% |
| Provision for loan losses        | 12,191             | 6,842              | 78.2   | 41,459             | 34,447             | 20.4   |
| Noninterest income               | 39,003             | 38,995             | 0.0    | 126,844            | 129,384            | (2.0)  |
| Noninterest expense              | 83,966             | 72,463             | 15.9   | 248,181            | 218,233            | 13.7   |
| <b>Other Data:</b>               |                    |                    |        |                    |                    |        |
| Return on average common equity  | 2.53%              | 10.50%             |        | 4.00%              | 11.20%             |        |
| Efficiency ratio                 | 83.39              | 70.03              |        | 77.58              | 67.36              |        |
| Tier 1 leverage ratio            | 10.03              | 8.29               |        | 10.03              | 8.29               |        |
| Net charge-offs to average loans | 1.17               | 0.46               |        | 1.14               | 0.78               |        |

**Net Interest Income**

Net interest income is our most significant component of earnings, comprising over 58% of revenues at September 30, 2009. 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 prepayment risk on mortgage and investment-related assets and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. In the current market, wholesale funding sources cost less than client deposits; however, ordinarily funding from client deposits costs less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize our mix of assets and funding and our net interest income and margin.

Net interest income and net interest margin in the following discussion are presented on a fully taxable equivalent basis, which adjusts tax-exempt or nontaxable interest income to an amount that would be comparable to interest subject to income taxes using the federal statutory tax rate of 35% in effect for all periods. Net income is unaffected by these taxable equivalent adjustments as the offsetting increase of the same amount is made to income tax expense. Net interest income includes taxable equivalent adjustments of \$5.3 million and \$4.9 million for the three months ended September 30, 2009 and 2008, respectively. Taxable equivalent adjustments for the nine months ended September 30, 2009 and 2008 were \$16.7 million and \$13.9 million, respectively.

Taxable equivalent net interest income was \$61.7 million and \$193.1 million for the three and nine months ended September 30, 2009, down from the \$64.5 million and \$194.6 million reported for the three and nine months ended September 30, 2008. The net interest margin was 3.53% and 3.58% for the three and nine months ended September 30, 2009, compared to 3.79% and 3.77% for the three and nine months ended September 30, 2008. The decrease in both net interest income and net interest margin is primarily due to the decrease in the yield on interest earning assets being greater than the decrease in the cost of interest-bearing liabilities, combined with a change in the mix of interest earning assets and interest-bearing liabilities. The yield on average earning assets decreased 84 basis points from 5.89% to 5.05% while the cost of interest-bearing liabilities decreased 64 basis points from 2.45% to 1.81% in the quarterly year-over-year comparison. In the year-to-date comparison, the yield on average assets decreased 89 basis points from 6.04% to 5.15% while the cost of interest-bearing liabilities decreased 78 basis points from 2.63% to 1.85%.



**Table of Contents**

Average earning assets were \$6.995 billion for the three months ended September 30, 2009, compared to \$6.804 billion for the three months ended September 30, 2008, an increase of 2.8%, or \$190.5 million. Average earning assets were \$7.189 billion for the nine months ended September 30, 2009, compared to \$6.878 billion for the nine months ended September 30, 2008, an increase of 4.5%, or \$311.5 million. Significantly affecting average earning assets at September 30, 2009 compared to September 30, 2008, was the increase in the size of the investment portfolio combined with the reduction of the size of the loan portfolio. During the nine months ended September 30, 2009, \$1.842 billion of investment securities were purchased and \$915.8 million of investment securities were called by the issuers or sold. During the third quarter of 2009, approximately \$258.0 million of leases held for sale were sold. In addition, commercial and commercial real estate loans have been affected by continued weak loan demand in our markets, more stringent loan underwriting standards and our desire to lower future potential credit risk by being cautious towards the real estate market. Year over year, the investment portfolio, which generally has an average yield lower than the loan portfolio, has increased as a percent of interest earning assets.

Also affecting margin was an increase in noninterest-bearing demand deposits and time deposits. Included in deposits at September 30, 2009 are \$88.8 million of noninterest-bearing deposits and \$126.2 million of time deposits from the Citizens Financial branch acquisition. In the fourth quarter of 2008, \$19.3 million of high cost brokered certificates of deposit were called or matured. In addition, \$25.0 million of FHLB advances matured in the fourth quarter of 2008 and a revolving credit facility with \$55 million outstanding was paid off in the fourth quarter of 2008. During the first nine months of 2009, \$81.0 million of high cost brokered certificates of deposit were called and \$67.1 million of retail certificates of deposit were called. In addition, \$25.0 million of FHLB advances were prepaid in the first nine months of 2009. Year over year, brokered certificates of deposit, which have an average interest rate higher than other types of deposits, have decreased as a percent of interest-bearing liabilities. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding. Funding from client deposits generally cost less than wholesale funding, but not in the current market.

**Provision for Loan Losses**

The provision for loan losses was \$12.2 million for the three months ended September 30, 2009, compared to \$6.8 million for the three months ended September 30, 2008. The provision for loan losses was \$41.5 million for the nine months ended September 30, 2009, compared to \$34.4 million for the nine months ended September 30, 2008. Included in the 2008 provision is \$17.7 million associated with the misconduct of a former loan officer in the Indianapolis market and subsequent deterioration of these credits. The higher provision in 2009 is attributable to an increase in net charge-offs combined with an increase in nonaccrual loans. Included in 2009 net charge-offs is a \$3.1 million insurance recovery associated with the misconduct of a former loan officer in 2008 as discussed above.

**Noninterest Income**

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products and insurance. Noninterest income was \$39.0 million for both the three months ended September 30, 2009 and the three months ended September 30, 2008. For the nine months ended September 30, 2009, noninterest income was \$126.8 million, a decrease of \$2.6 million, or 2.0%, from the \$129.4 million reported for the nine months ended September 30, 2008.

Net securities gains were \$40 thousand and \$5.7 million for the three and nine months ended September 30, 2009, compared to net securities gains of \$45 thousand and \$6.6 million for the three and nine months ended September 30, 2008. Included in the third quarter and first nine months of 2009 is \$5.1 million and \$15.3 million, respectively, in charges for other-than-temporary-impairment on six pooled trust preferred securities and two non-agency mortgage-backed securities. The 2008 net securities gains were primarily the result of securities which were called by the issuers.

Wealth management fees were \$3.9 million and \$11.9 million for the three and nine months ended September 30, 2009 as compared to \$4.2 million and \$13.6 million for the three and nine months ended September 30, 2008. Trust fee income has declined as a result of lower market values of managed assets.

Service charges on deposit accounts were \$15.1 million and \$41.4 million for the three and nine months ended September 30, 2009, compared to \$11.8 million and \$33.4 million for the three and nine months ended September 30,

2008. The increase in revenue is primarily attributable to the acquisition of the retail branch banking network of Citizens Financial Group in March 2009.

ATM fees were \$5.4 million and \$15.0 million for the three and nine months ended September 30, 2009, compared to \$4.5 million and \$13.0 million for the three and nine months ended September 30, 2008. The increase in debit card usage is primarily attributable to the Citizens Financial branch acquisition.



**Table of Contents**

Revenue from company-owned life insurance was \$0.5 million and \$1.6 million for the three and nine months ended September 30, 2009, compared to \$2.9 million and \$8.4 million for the three and nine months ended September 30, 2008. During the third quarter of 2008, the crediting rate formula for the 1997 company-owned life insurance policy was amended to adopt a more conservative position and improve the overall market to book value ratio. This change resulted in lower revenues in the first nine months of 2009 and while we expect revenues to increase in 2010 and future years, we also anticipate revenue will remain below 2008 levels.

Fluctuations in the value of our derivatives resulted in losses on derivatives of \$0.7 million for the three months ended September 30, 2009 and gains of \$0.3 million for the nine months ended September 30, 2009 as compared to losses on derivatives of \$0.2 million and \$1.2 million for the three and nine months ended September 30, 2008.

Other income decreased \$1.1 million and \$3.9 million for the three and nine months ended September 30, 2009 as compared to the three and nine months ended September 30, 2008. Included in third quarter 2009 is a \$1.4 million loss from the sale of approximately \$258.0 million of leases held for sale, net of transaction fees. The first quarter of 2008 included a \$1.5 million gain associated with the redemption of class B VISA shares. Customer derivative fee revenue has also decreased in the year-over-year comparison.

**Noninterest Expense**

Noninterest expense for the three months ended September 30, 2009, totaled \$84.0 million, an increase of \$11.5 million, or 15.9%, from the \$72.5 million recorded for the three months ended September 30, 2008. For the nine months ended September 30, 2009, noninterest expense was \$248.2 million, an increase of \$30.0 million, or 13.7%, from the \$218.2 million recorded for the nine months ended September 30, 2008. The increased expenses in 2009 relate primarily to costs associated with the 65 Citizens Financial branches acquired during March 2009, as well as an increase in FDIC insurance expense.

Salaries and benefits is the largest component of noninterest expense. For the three months ended September 30, 2009, salaries and benefits were \$46.5 million compared to \$40.5 million for the three months ended September 30, 2008.

For the nine months ended September 30, 2009, salaries and benefits were \$134.4 million compared to \$126.0 million for the nine months ended September 30, 2008. Included in the third quarter of 2009 is approximately \$4.7 million of personnel expense associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group. Included in the first nine months of 2009 is approximately \$10.0 million of personnel expense associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group and \$2.0 million for higher medical insurance expense. Partially offsetting these increases was a \$2.0 million decrease in performance-based incentive compensation expense during the nine months ended September 30, 2009.

Occupancy expense increased \$2.2 million and \$5.6 million for the three and nine months ended September 30, 2009, compared to the three and nine months ended September 30, 2008, primarily as a result of increases in rent expense and the amortization of leasehold improvements. Utilities expense and real estate taxes also increased for the three and nine months ended September 30, 2009 as compared to the three and nine months ended September 30, 2008. The increase in rent expense is related to the sale leaseback transactions discussed in Note 16 to the consolidated financial statements and the additional 65 branches acquired from Citizens Financial in the first quarter of 2009. The increase in amortization expense is also related to the acquisition of the branches from Citizens Financial.

Professional fees increased \$1.5 million for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008. The increase is primarily attributable to legal and other professional fees associated with the acquisition of the Citizens Financial branch network.

FDIC assessment expense was \$1.8 million for the three months ended September 30, 2009, compared to \$0.3 million for the three months ended September 30, 2008. For the nine months ended September 30, 2009, FDIC assessment expense was \$10.2 million compared to \$0.9 million for the nine months ended September 30, 2008. The increase is primarily due to the increase in the rates banks pay for deposit insurance and the expiration of our one-time assessment credit at the end of 2008. The FDIC implemented a special assessment during the second quarter of 2009 which resulted in approximately \$4.0 million of additional expense during the quarter. We continue to monitor the FDIC's restoration plan and believe it is possible that the FDIC will impose another special assessment later in the year or require us to prepay our 2010, 2011 and 2012 assessments in the current year.



**Table of Contents**

The increase in the expense for amortization of intangibles for both the quarterly and year-to-date comparisons is primarily due to the core deposit intangible associated with the acquisition of the retail branch banking network of Citizens Financial Group and subsequent amortization of this asset.

Other expense for the nine months ended September 30, 2009, totaled \$12.7 million, an increase of \$2.0 million compared to the nine months ended September 30, 2008. The provision for unfunded commitments increased \$1.1 million for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008. Included in the nine months ended September 30, 2009 is approximately \$1.1 million of conversion expenses related to the acquisition of the retail branch banking network of Citizens Financial Group.

**Provision for Income Taxes**

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was a benefit of 640.6% for the three months ended September 30, 2009, compared to expense of 11.8% for the three months ended September 30, 2008. The provision for income taxes, as a percentage of pre-tax income, was a benefit of 69.8% for the nine months ended September 30, 2009, compared to expense of 2.8% for the nine months ended September 30, 2008. The decrease in the effective tax rate for the three months ended September 30, 2009, is the result of tax-exempt income being a higher percentage of pre-tax income in 2009 than in the prior year and the pre-tax income being lower than prior periods. Management intends to gradually reduce the current level of tax-exempt income and sold \$258 million of tax-exempt municipal leases during the third quarter of 2009. The average balance of municipal bonds also declined during the quarter. The decrease in the effective tax rate for the nine months ended September 30, 2009, is the result of tax-exempt income being a higher percentage of pre-tax income in 2009 than in the prior year. See Note 14 to the consolidated financial statements for additional information.

**FINANCIAL CONDITION****Overview**

At September 30, 2009, our assets were \$7.973 billion, a 5.4% increase compared to September 30, 2008 assets of \$7.568 billion, and an annualized increase of 1.7% compared to December 31, 2008 assets of \$7.874 billion. On March 20, 2009, Old National completed its acquisition of the Indiana retail branch banking network of Citizens Financial Group, which increased assets by approximately \$424.7 million and deposits by \$424.5 million. In September 2009, Old National sold \$258.0 million of finance leases and raised approximately \$196.4 million from a public offering of common stock.

**Earning Assets**

Our earning assets are comprised of investment securities, loans and loans and leases held for sale, and money market investments. Earning assets were \$7.095 billion at September 30, 2009, an increase of 4.5% from September 30, 2008, and an annualized increase of 0.4% since December 31, 2008.

*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 do have \$73.4 million of 15- and 20-year fixed-rate mortgage pass-through securities in our held-to-maturity investment portfolio and during the second quarter of 2009 approximately \$230.1 million of U.S. government-sponsored entity and agency securities were added to our held-to-maturity investment portfolio. At September 30, 2009, the total investment securities portfolio was \$2.960 billion compared to \$2.070 billion at September 30, 2008, an increase of \$890.3 million or 43.0%. Investment securities increased \$694.7 million compared to December 31, 2008, an annualized increase of 40.9%. Investment securities represented 41.7% of earning assets at September 30, 2009, compared to 30.5% at September 30, 2008, and 32.0% at December 31, 2008. Funds received in the Citizens Financial branch acquisition, the sale of the finance leases and from the public offering of common stock have been invested primarily in investment securities. Stronger commercial loan demand in the future and management's efforts to deleverage the balance sheet could result in a reduction in the securities portfolio. As of

September 30, 2009, management does not intend to sell any securities with an unrealized loss position.

**Table of Contents**

The investment securities available-for-sale portfolio had net unrealized losses of \$7.3 million at September 30, 2009, a decrease of \$66.9 million compared to net unrealized losses of \$74.2 million at September 30, 2008, and a decrease of \$57.3 million compared to net unrealized losses of \$64.6 million at December 31, 2008. A \$15.3 million charge was recorded during the first nine months of 2009 related to other-than-temporary-impairment on six pooled trust preferred securities and two non-agency mortgage-backed securities. Contributing to the volatility in net unrealized losses over the past twelve months are changes in interest rates and the financial crisis affecting the banking system and financial markets.

The investment portfolio had an average duration of 4.41 years at September 30, 2009, compared to 4.76 years at September 30, 2008, and 3.87 years at December 31, 2008. The annualized average yields on investment securities, on a taxable equivalent basis, were 4.98% for the three months ended September 30, 2009, compared to 5.38% for the three months ended September 30, 2008, and 5.62% for the three months ended December 31, 2008. Average yields on investment securities, on a taxable equivalent basis, were 5.20%, 5.25% and 5.34% for the nine months ended September 30, 2009 and 2008, and for the year ended December 31, 2008, respectively.

*Residential Loans Held for Sale*

Residential loans held for sale were \$11.4 million at September 30, 2009, compared to \$11.1 million at September 30, 2008, and \$17.2 million at December 31, 2008. Residential loans held for sale are loans that are closed, but not yet purchased by investors. The amount of residential loans held for sale on the balance sheet varies depending on the amount of originations and timing of loan sales to the secondary market.

We elected the fair value option under FASB ASC 825-10 (SFAS No. 159) prospectively for residential loans held for sale. The election was effective for loans originated after January 1, 2008. The aggregate fair value exceeded the unpaid principal balances by \$0.4 million, \$0.6 million and \$0.2 million as of September 30, 2009, December 31, 2008 and September 30, 2008, respectively.

*Finance Leases Held for Sale*

At September 30, 2009, Old National had finance leases held for sale of \$58.4 million. In the second quarter of 2009, \$370.2 million of leases were transferred from the commercial loan category at cost utilizing the lower of cost or fair value method. During the third quarter of 2009, approximately \$258.0 million of leases held for sale were sold at a price above par; however the transaction resulted in a loss of \$1.4 million after transaction fees. Approximately \$46.0 million of leases were transferred from held for sale back to the loan portfolio at the lower of cost or market and at September 30, 2009. After scheduled principal payments and prepayments, \$58.4 million of finance leases remained available for sale. The leases held for sale at September 30, 2009 have maturities ranging from 1 to 18 years and interest rates ranging from 3.76% to 9.73%. All of the leases held for sale are to municipalities, with various types of equipment securing the leases, and all of the leases are current.

*Commercial and Commercial Real Estate Loans*

Commercial and commercial real estate loans are the second largest classification within earning assets, representing 35.1% of earning assets at September 30, 2009, a decrease from 43.7% at September 30, 2008, and a decrease from 43.2% at December 31, 2008. At September 30, 2009, commercial and commercial real estate loans were \$2.488 billion, a decrease of \$482.0 million since September 30, 2008, and a decrease of \$564.4 million since December 31, 2008. The majority of the decrease relates to the finance leases which were moved to held for sale status or sold in the third quarter of 2009. In addition, weak loan demand in our markets continues to affect loan growth. Our conservative underwriting standards have also contributed to slower loan growth. We continue to be cautious towards the real estate market in an effort to lower credit risk.

*Consumer Loans*

At September 30, 2009, consumer loans, including automobile loans, personal and home equity loans and lines of credit, and student loans, decreased \$77.8 million or 6.5% compared to September 30, 2008, and decreased \$85.4 million or, annualized, 9.4% since December 31, 2008.

**Table of Contents***Residential Real Estate Loans*

Residential real estate loans, primarily 1-4 family properties, have decreased in significance to the loan portfolio over the past five years due to higher levels of loan sales into the secondary market, primarily to private investors. We sell the majority of residential real estate loans originated as a strategy to better manage interest rate risk and liquidity. We sell almost all residential real estate loans servicing released without recourse.

At September 30, 2009, residential real estate loans were \$421.7 million, a decrease of \$86.4 million, or 17.0%, from September 30, 2008.

**Goodwill and Other Intangible Assets**

Goodwill and other intangible assets at September 30, 2009, totaled \$202.4 million, an increase of \$14.6 million compared to \$187.8 million at September 30, 2008, and an increase of \$15.6 million compared to \$186.8 million at December 31, 2008. We recorded \$19.9 million of goodwill and other intangible assets associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which is included in the Community Banking column for segment reporting. The remaining decreases were the result of standard amortization expense related to the other intangible assets.

**Other Assets**

Other assets have increased \$49.3 million, or 28.3%, since September 30, 2008, primarily as a result of an increase in receivables associated with securities trades that did not settle until early October and the timing of those payments and fluctuations in the fair value of derivative financial instruments.

**Funding**

Total funding, comprised of deposits and wholesale borrowings, was \$6.829 billion at September 30, 2009, an increase of 1.5% from \$6.725 billion at September 30, 2008, and an annualized decrease of 1.5% from \$6.907 billion at December 31, 2008. Included in total funding were deposits of \$5.694 billion at September 30, 2009, an increase of \$348.1 million, or 6.5%, compared to September 30, 2008, and an increase of \$272.1 million compared to December 31, 2008. Included in total deposits at September 30, 2009 is \$342.5 million from the acquisition of the Indiana retail branch banking network of Citizens Financial Group. In the fourth quarter of 2008, \$19.3 million of high cost brokered certificates of deposit were called or matured. During the first nine months of 2009, \$81.0 million of high cost brokered certificates of deposit were called and \$67.1 million of retail certificates of deposit were called. Noninterest-bearing deposits increased 23.7% or \$200.2 million compared to September 30, 2008. Time deposits increased 6.9% or \$132.2 million compared to September 30, 2008. Year over year, we have experienced an increase in noninterest-bearing demand deposits.

Effective January 1, 2008, we elected the fair value option under FASB ASC 825-10 (SFAS No. 159) prospectively for certain retail certificates of deposit. The carrying value of these retail certificates of deposit was \$0, \$49.3 million and \$48.9 million as of September 30, 2009, December 31, 2008 and September 30, 2008, respectively. The carrying values at December 31, 2008 and September 30, 2008 were comprised of contractual balances of \$48.5 million and \$49.2 million and fair value adjustments of \$0.8 million and \$(0.3) million, respectively.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At September 30, 2009, wholesale borrowings, including short-term borrowings and other borrowings, decreased \$244.3 million, or 17.7%, from September 30, 2008 and decreased \$349.8 million, or 31.4%, annualized, from December 31, 2008, respectively. Wholesale funding as a percentage of total funding was 16.6% at September 30, 2009, compared to 20.5% at September 30, 2008, and 21.5% at December 31, 2008. Short-term borrowings have decreased \$215.6 million since September 30, 2008 while long-term borrowings have decreased \$28.7 million since September 30, 2008. We purchased \$25.0 million of low-cost FHLB advances during the fourth quarter of 2008. In addition, \$25.0 million of FHLB advances matured in the fourth quarter of 2008 and a revolving credit facility with \$55.0 million outstanding was paid off in the fourth quarter of 2008. During the first nine months of 2009, \$25.0 million of FHLB advances were prepaid.

**Table of Contents****Other Liabilities**

Other liabilities have increased \$71.3 million, or 34.3%, since September 30, 2008, primarily as a result of an increase in payables associated with a securities trade that did not settle until early October and the timing of that payment.

**Capital**

Shareholders' equity totaled \$865.4 million at September 30, 2009, compared to \$635.4 million at September 30, 2008, and \$730.9 million at December 31, 2008. The September 30, 2009 balance includes approximately \$196.4 million from a public offering of 20.7 million shares of common stock that occurred late in the third quarter of 2009. The December 31, 2008 balance included \$100 million of non-voting preferred shares and common stock warrants issued to the Treasury Department as part of the Capital Purchase Program for healthy financial institutions. On March 31, 2009, we accelerated the accretion of the \$2.6 million discount and repurchased all of the \$100 million of non-voting preferred shares from the Treasury Department.

As part of the TARP CPP, we entered into a Letter Agreement and Securities Purchase Agreement with the Treasury Department on December 12, 2008, pursuant to which Old National sold (i) 100,000 shares of Old National's Fixed Rate Cumulative Perpetual Preferred Stock, Series T (the "Series T Preferred Stock") and (ii) warrants (the "Warrants") to purchase up to 813,008 shares of Old National's common stock at an initial per share exercise price of \$18.45.

The Series T Preferred Stock qualified as Tier 1 capital and the Treasury Department was entitled to cumulative dividends at a rate of 5% per year for the first five years, and 9% per year thereafter. The Preferred Stock had priority in the payment of dividends over any cash dividends paid to common stockholders. The adoption of ARRA permitted Old National to redeem the Series T Preferred Stock without penalty and without the need to raise new capital, subject to the Treasury's consultation with Old National's regulatory agency. The Warrants had a 10-year term and were immediately exercisable upon issuance. The common stock warrants were repurchased on May 11, 2009, for \$1.2 million.

During the fourth quarter of 2007, we declared a cash dividend of \$0.23 per share to be paid in the first quarter of 2008, which was included in the fourth quarter 2007 financial results. We paid cash dividends of \$0.07 and \$0.37 per share for the three and nine months ended September 30, 2009, which reduced equity by \$24.4 million. We also accrued dividends on the preferred shares for the three months ended March 31, 2009, which reduced equity by \$1.2 million. We declared cash dividends of \$0.23 and \$0.46 for the three and nine months ended September 30, 2008, which reduced equity by \$30.5 million. We repurchased shares of our stock, reducing shareholders' equity by \$0.4 million during the nine months ended September 30, 2009, and \$0.4 million during the nine months ended September 30, 2008. The repurchases related to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by \$37.3 million during the nine months ended September 30, 2009, and decreased equity by \$40.6 million during the nine months ended September 30, 2008. Shares issued for stock options, restricted stock and stock compensation plans increased shareholders' equity by \$3.8 million during the nine months ended September 30, 2009, compared to \$2.9 million during the nine months ended September 30, 2008.

**Capital Adequacy**

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. At September 30, 2009, Old National and its bank subsidiary exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory definition. To be categorized as well-capitalized, the bank subsidiary must maintain at least a total risk-based capital ratio of 10.0%, a Tier 1 risk-based capital ratio of 6.0% and a Tier 1 leverage ratio of 5.0%. Regulatory capital ratios have increased primarily due to the public offering of common stock that raised approximately \$196.4 million during the third quarter of 2009.

**Table of Contents**

As of September 30, 2009, Old National's consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

|   | <b>Regulatory</b> |                      |             |                 |
|---|-------------------|----------------------|-------------|-----------------|
|   | <b>Guidelines</b> | <b>September 30,</b> |             | <b>December</b> |
|   | <b>Minimum</b>    | <b>2009</b>          | <b>2008</b> | <b>31,</b>      |
|   |                   |                      |             | <b>2008</b>     |
| <b>Risk-based capital:</b>                          |                   |                      |             |                 |
| Tier 1 capital to total avg assets (leverage ratio) | 4.00%             | <b>10.03%</b>        | 8.29%       | 9.50%           |
| Tier 1 capital to risk-adjusted total assets        | 4.00              | <b>14.11</b>         | 11.36       | 12.73           |
| Total capital to risk-adjusted total assets         | 8.00              | <b>16.47</b>         | 14.28       | 15.06           |
| Shareholders' equity to assets                      | N/A               | <b>10.85</b>         | 8.39        | 9.28            |

**RISK MANAGEMENT****Overview**

Management, with the oversight of the Board of Directors, has in place company-wide structures, processes, and controls for managing and mitigating risk. The following discussion addresses the three major risks that we face: credit, market, and liquidity.

**Credit Risk**

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

Investment Activities

Within our securities portfolio, the non-agency collateralized mortgage obligations represent the greatest exposure to the current instability in the residential real estate and credit markets. At September 30, 2009, we had non-agency collateralized mortgage obligations of \$183.5 million or approximately 7.0% of the available-for-sale securities portfolio. The net unrealized loss on these securities at September 30, 2009, was approximately \$47.3 million.

We expect conditions in the overall residential real estate and credit markets to remain uncertain for the foreseeable future. Deterioration in the performance of the underlying loan collateral could result in deterioration in the performance of our asset-backed securities. Two of these securities were downgraded during the quarter and as of September 30, 2009 ten of these securities were rated below investment grade. During the third quarter of 2009, we recorded \$0.5 million of other-than-temporary-impairment on these securities.

We also carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and performance of underlying collateral. At September 30, 2009, we had pooled trust preferred securities with a fair value of approximately \$16.0 million, or 0.6% of the available-for-sale securities portfolio. During the first six months of 2009, \$10.3 million of other-than-temporary-impairment was recorded for six of these securities. Due to additional deferrals and defaults during the third quarter, an additional \$4.5 million of other-than-temporary-impairment was recorded. For the first nine months of 2009, \$14.8 million has been recorded as a credit loss in earnings. These securities remained classified as available-for-sale and at September 30, 2009, the unrealized loss on our pooled trust preferred securities was approximately \$18.0 million.

The majority of the remaining mortgage-backed securities are backed by U.S. government-sponsored or federal agencies. Municipal bonds, corporate bonds and other debt securities are evaluated by reviewing the credit-worthiness of the issuer and general market conditions. We do not have the intent to sell these securities and it is likely that we will not be required to sell these securities before their anticipated recovery.

Counterparty Exposure

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation in a financial transaction. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National's net counterparty exposure was an asset of \$389.1 million at September 30, 2009.





**Table of Contents****Lending Activities**

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

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. At September 30, 2009, we had no concentration of loans in any single industry exceeding 10% of our portfolio and had no exposure to foreign borrowers or lesser-developed countries. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Illinois and Kentucky. We continue to be affected by weakness in the economy of our principal markets. Management expects that trends in under-performing, criticized and classified loans will be influenced by the degree to which the economy strengthens or weakens.

Summary of under-performing, criticized and classified assets:

| (dollars in thousands)   | <b>September 30,</b> |             | <b>December</b> |
|--|----------------------|-------------|-----------------|
|  | <b>2009</b>          | <b>2008</b> | <b>31,</b>      |
|  |                      |             | <b>2008</b>     |
| Nonaccrual loans   |                      |             |                 |
| Commercial and commercial real estate  | \$ 56,882            | \$ 56,266   | \$ 52,394       |
| Residential real estate  | 8,385                | 6,207       | 5,474           |
| Consumer   | 8,434                | 5,973       | 6,173           |
| Total nonaccrual loans   | <b>73,701</b>        | 68,446      | 64,041          |
| Renegotiated loans   |                      |             |                 |
| Past due loans (90 days or more and still accruing)  |                      |             |                 |
| Commercial and commercial real estate  | 1,188                | 1,074       | 991             |
| Residential real estate  |                      |             |                 |
| Consumer   | 1,509                | 853         | 1,917           |
| Total past due loans   | <b>2,697</b>         | 1,927       | 2,908           |
| Foreclosed properties  | 4,213                | 3,178       | 2,934           |
| Total under-performing assets  | <b>\$ 80,611</b>     | \$ 73,551   | \$ 69,883       |
| Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans) | <b>\$ 174,687</b>    | \$ 173,833  | \$ 180,118      |
| Other classified assets (3)  | 174,582              |             | 34,543          |
| Criticized loans   | 94,607               | 114,321     | 124,855         |
| Total criticized and classified assets   | <b>\$ 443,876</b>    | \$ 288,154  | \$ 339,516      |
| Asset Quality Ratios:  |                      |             |                 |
| Non-performing loans/total loans (1) (2)   | <b>1.80%</b>         | 1.46%       | 1.34%           |
| Under-performing assets/total loans and foreclosed properties (1)                              | <b>1.96</b>          | 1.57        | 1.46            |
| Under-performing assets/total assets   | <b>1.01</b>          | 0.97        | 0.89            |
| Allowance for loan losses/under-performing assets  | <b>86.28</b>         | 86.29       | 96.00           |

- (1) Loans include residential loans held for sale and leases held for sale.
- (2) Non-performing loans include nonaccrual and renegotiated loans.
- (3) Includes 8 pooled trust preferred securities, 10 non-agency mortgage-backed securities and 1 corporate security at September 30, 2009.

Loan charge-offs, net of recoveries, totaled \$12.7 million for the three months ended September 30, 2009, an increase of \$7.2 million from the three months ended September 30, 2008. Net charge-offs for the nine months ended September 30, 2009 totaled \$39.0 million compared to \$27.4 million for the nine months ended September 30, 2008. Included in the nine months ended September 30, 2009 is \$0.6 million of charge-offs associated with commercial and commercial real estate loans which were transferred to held for sale and sold during the second quarter. Annualized, net charge-offs to average loans were 1.17% and 1.14% for the three and nine months ended September 30, 2009, as compared to 0.46% and 0.78% for the three and nine months ended September 30, 2008.

Under-performing assets totaled \$80.6 million at September 30, 2009, an increase of \$7.0 million compared to \$73.6 million at September 30, 2008, and an increase of \$10.7 million compared to \$69.9 million at December 31, 2008. As a percent of total loans and foreclosed properties, under-performing assets at September 30, 2009, were 1.96%, an increase from the September 30, 2008 ratio of 1.57% and an increase from the December 31, 2008 ratio of 1.46%. Nonaccrual loans were \$73.7 million at September 30, 2009, compared to \$68.4 million at September 30, 2008, and \$64.0 million at December 31, 2008.

**Table of Contents**

From time to time, Old National may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. Loans modified in a troubled debt restructuring are placed on nonaccrual status until the Company determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. At September 30, 2009, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled \$4.8 million. There were no loans modified in troubled debt restructurings at December 31, 2008. Management will continue its efforts to reduce the level of under-performing loans and will consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses. Total classified and criticized assets were \$443.9 million at September 30, 2009, an increase of \$155.7 million from September 30, 2008, and an increase of \$104.4 million from December 31, 2008. Other classified assets include \$174.6 million and \$34.5 million of investment securities that fell below investment grade rating at September 30, 2009 and December 31, 2008, respectively.

*Allowance for Loan Losses and Reserve for Unfunded Commitments*

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The determination of the allowance is based upon the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events and regulatory guidance. At September 30, 2009, the allowance for loan losses was \$69.6 million, an increase of \$6.1 million compared to \$63.5 million at September 30, 2008, and an increase of \$2.5 million compared to \$67.1 million at December 31, 2008. An increase in specific loan allocations of approximately \$0.4 million related to credit deterioration in the commercial loan portfolio combined with an increase of approximately \$2.1 million in general allocation related to credit deterioration in the commercial portfolio were the primary reasons for the increase in the allowance from December 31, 2008 to September 30, 2009. As a percentage of total loans excluding loans and leases held for sale, the allowance was 1.72% at September 30, 2009, compared to 1.36% at September 30, 2008, and 1.41% at December 31, 2008. The provision for loan losses for the three months ended September 30, 2009, amounted to \$12.2 million compared to \$6.8 million for the three months ended September 30, 2008. The provision for the nine months ended September 30, 2009, amounted to \$41.5 million compared to \$34.4 million for the nine months ended September 30, 2008. The increase in the provision year over year is primarily attributable to an increase in net charge-offs combined with an increase in nonaccrual loans.

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. In accordance with generally accepted accounting principles, the \$4.7 million reserve for unfunded loan commitments is classified as a liability account on the balance sheet. The reserve for unfunded loan commitments was \$3.5 million at December 31, 2008.

**Market Risk**

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, currency exchange rates, and other relevant market rates or prices. Interest rate risk is our primary market risk and results from timing differences in the re-pricing of assets and liabilities, changes in the slope of the yield curve, and the potential exercise of explicit or embedded options.

**Table of Contents**

We manage interest rate risk within an overall asset and liability management framework that includes attention to credit risk, liquidity risk and capitalization. A principal objective of asset/liability management is to manage the sensitivity of net interest income to changing interest rates. Asset and liability management activity is governed by a policy reviewed and approved annually by the Board of Directors. The Board of Directors has delegated the administration of this policy to the Funds Management Committee, a committee of the Board of Directors, and the Executive Balance Sheet Management Committee, a committee comprised of senior executive management. The Funds Management Committee meets quarterly and oversees adherence to policy and recommends policy changes to the Board. The Executive Balance Sheet Management committee meets at least quarterly. This committee determines balance sheet management strategies and initiatives for the Company. A group comprised of corporate and line management meets monthly to implement strategies and initiatives determined by the Executive Balance Sheet Management Committee.

We use two modeling techniques to quantify the impact of changing interest rates on the Company, Net Interest Income at Risk and Economic Value of Equity. Net Interest Income at Risk is used by management and the Board of Directors to evaluate the impact of changing rates over a two-year horizon. Economic Value of Equity is used to evaluate long-term interest rate risk. These models simulate the likely behavior of our net interest income and the likely change in our economic value due to changes in interest rates under various possible interest rate scenarios. Because the models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect our net interest income and value, we recognize that model outputs are not guarantees of actual results. For this reason, we model many different combinations of interest rates and balance sheet assumptions to understand its overall sensitivity to market interest rate changes.

Old National's Board of Directors, through its Funds Management Committee, monitors our interest rate risk. Policy guidelines, in addition to September 30, 2009 and 2008 results are as follows:

**Net Interest Income 12 Month Policies**

|             | <b>Interest Rate Change in Basis Points (bp)</b> |                  |                  |                  |                  |                    |
|-------------|--|------------------|------------------|------------------|------------------|--------------------|
|             | <b>Down 300</b>                                  | <b>Down 200</b>  | <b>Down 100</b>  | <b>Up 100</b>    | <b>Up 200</b>    | <b>Up 300</b>      |
| Green Zone  | -12.00%  | -6.50%           | -3.00%           | -3.00%           | -6.50%           | -12.00%            |
| Yellow Zone | -12.00% to -15.00%                               | -6.50% to -8.50% | -3.00% to -4.00% | -3.00% to -4.00% | -6.50% to -8.50% | -12.00% to -15.00% |
| Red Zone    | -15.00%  | -8.50%           | -4.00%           | -4.00%           | -8.50%           | -15.00%            |
| 9/30/2009   | N/A  | N/A              | N/A              | 2.78%            | 3.79%            | 4.04%              |
| 9/30/2008   | N/A  | -6.51%           | -0.82%           | 0.19%            | 0.21%            | 0.00%              |

**Net Interest Income 24 Month Cumulative Policies**

|             | <b>Interest Rate Change in Basis Points (bp)</b> |                  |                  |                  |                  |                    |
|-------------|--|------------------|------------------|------------------|------------------|--------------------|
|             | <b>Down 300</b>                                  | <b>Down 200</b>  | <b>Down 100</b>  | <b>Up 100</b>    | <b>Up 200</b>    | <b>Up 300</b>      |
| Green Zone  | -12.00%  | -6.50%           | -3.00%           | -3.00%           | -6.50%           | -12.00%            |
| Yellow Zone | -12.00% to -15.00%                               | -6.50% to -8.50% | -3.00% to -4.00% | -3.00% to -4.00% | -6.50% to -8.50% | -12.00% to -15.00% |
| Red Zone    | -15.00%  | -8.50%           | -4.00%           | -4.00%           | -8.50%           | -15.00%            |
| 9/30/2009   | N/A  | N/A              | N/A              | 5.16%            | 6.43%            | 6.67%              |
| 9/30/2008   | N/A  | -10.21%          | -2.32%           | 0.65%            | 0.88%            | 0.68%              |

**Economic Value of Equity Policies****Interest Rate Change in Basis Points (bp)**

Edgar Filing: OLD NATIONAL BANCORP /IN/ - Form 10-Q

|             | <b>Down 300</b>    | <b>Down 200</b>    | <b>Down 100</b>  | <b>Up 100</b>    | <b>Up 200</b>      | <b>Up 300</b>      |
|-------------|--------------------|--------------------|------------------|------------------|--------------------|--------------------|
| Green Zone  | -22.00%            | -12.00%            | -5.00%           | -5.00%           | -12.00%            | -22.00%            |
| Yellow Zone | -22.00% to -30.00% | -12.00% to -17.00% | -5.00% to -7.50% | -5.00% to -7.50% | -12.00% to -17.00% | -22.00% to -30.00% |
| Red Zone    | -30.00%            | -17.00%            | -7.50%           | -7.50%           | -17.00%            | -30.00%            |
| 9/30/2009   | <b>N/A</b>         | <b>N/A</b>         | <b>N/A</b>       | <b>-1.58%</b>    | <b>-6.60%</b>      | <b>-10.71%</b>     |
| 9/30/2008   | <b>N/A</b>         | -14.96%            | -2.18%           | -2.94%           | -6.67%             | -10.67%            |

**Table of Contents**

Red zone policy limits represent our normal absolute interest rate risk exposure compliance limit. Policy limits defined as green zone represent the range of potential interest rate risk exposures that the Funds Management Committee believes to be normal and acceptable operating behavior. Yellow zone policy limits represent a range of interest rate risk exposures falling below the bank's maximum allowable exposure (red zone) but above its normally acceptable interest rate risk levels (green zone). Policy limits are applicable to negative changes in Net Interest Income at Risk and Economic Value of Equity.

Modeling for the Down 100 Basis Points, Down 200 Basis Points, and Down 300 Basis Points scenarios for both the Net Interest Income at Risk and Economic Value of Equity are not applicable in the current rate environment because the scenarios floor at Zero before absorbing the full 100, 200, and 300 basis point drop, respectively.

At September 30, 2009, modeling indicated Old National's Net Interest Income at Risk values were positive for Up 100, Up 200 and Up 300 scenarios for both the 12-month and 24-month Net Interest Income at Risk.

At September 30, 2009, modeling indicated that Old National was within the green zone policy limit for the Up 100, Up 200, and Up 300 Economic Value of Equity Scenarios, which is considered normal and acceptable for Economic Value of Equity scenarios.

In addition to policy-defined scenarios, Old National models other scenarios to measure interest rate risk. For example, the company models a yield curve based on current swap spreads and a 12-month forward curve. As of September 30, 2009, Old National's 12 month cumulative Net Interest Income at Risk for the scenario was -0.82%. In addition, Old National models a ramp scenario where rates are increased 25 basis points each quarter over a 12 month timeframe. As of September 30, 2009, Old National's 12 month cumulative Net Interest Income at Risk for this scenario was 0.46%.

We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. Our derivatives had an estimated fair value gain of \$2.0 million at September 30, 2009, compared to an estimated fair value loss of \$0.6 million at December 31, 2008. In addition, the notional amount of derivatives increased by \$218.5 million from 2008. See Note 15 to the consolidated financial statements for further discussion of derivative financial instruments.

**Liquidity Risk**

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

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

Our ability to acquire funding at competitive prices is influenced by rating agencies' views of our credit quality, liquidity, capital and earnings. All of the rating agencies place us in an investment grade that indicates a low risk of default. Standard and Poor's and Dominion Bond Rating Services have each issued a stable outlook in conjunction with their ratings as of December 31, 2008. On October 13, 2008, Moody's Investor Service changed Old National Bancorp's outlook to negative. As of December 12, 2008, Fitch Rating Services changed their long-term outlook rating from negative to stable for both Old National Bancorp (the Parent Company) and Old National Bank (the Bank Subsidiary).





**Table of Contents**

The senior debt ratings of Old National Bancorp (the Parent Company ) and Old National Bank (the Bank Subsidiary ) at September 30, 2009, are shown in the following table.

**SENIOR DEBT RATINGS**

|                         | Standard and<br>Poor's |               | Moody's Investor<br>Service |               | Fitch, Inc.  |               | Dominion Bond<br>Rating Svc. |               |
|-------------------------|------------------------|---------------|-----------------------------|---------------|--------------|---------------|------------------------------|---------------|
|                         | Long<br>term           | Short<br>term | Long<br>term                | Short<br>term | Long<br>term | Short<br>term | Long<br>term                 | Short<br>term |
| Old National<br>Bancorp | BBB                    | N/A           | A2                          | N/A           | BBB          | F2            | BBB<br>(high)                | R-2<br>(high) |
| Old National Bank       | BBB+                   | A2            | A1                          | P-1           | BBB+         | F2            | A (low)                      | R-1<br>(low)  |

N/A = not applicable

As of September 30, 2009, the Bank Subsidiary had the capacity to borrow \$898.9 million from the Federal Reserve Bank's discount window. The Bank Subsidiary is also a member of the Federal Home Loan Bank ( FHLB ) of Indianapolis, which provides a source of funding through FHLB advances. The Bank Subsidiary maintains relationships in capital markets with brokers and dealers to issue certificates of deposits and short-term and medium-term bank notes as well.

The Parent Company has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. The Parent Company obtains funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt markets. At September 30, 2009, the Parent Company's other borrowings outstanding remained unchanged at \$157.2 million compared with December 31, 2008. There is \$50.0 million Parent Company debt scheduled to mature within the next 12 months. During the second quarter of 2009, Old National entered into a \$30 million revolving credit facility at the parent level. The facility had an interest rate of LIBOR plus 2.00% and a maturity of 364 days. There was no amount outstanding as of September 30, 2009. As of September 30, 2009, Old National raised approximately \$196.4 million from a public offering of 20.7 million shares of common stock that occurred late in the third quarter of 2009.

Old National agreed to participate in the U.S. Treasury Department Capital Purchase Program for healthy financial institutions during fourth quarter 2008. Under the program, Old National sold preferred, non-voting shares of its stock and warrants valued at \$100 million to the U.S. Treasury Department. As of March 31, 2009, Old National repurchased all of the \$100 million of non-voting preferred shares from the Treasury Department. The common stock warrants were repurchased on May 11, 2009, for \$1.2 million.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. At December 31, 2006, the Bank Subsidiary had received regulatory approval to declare a dividend up to \$76 million in the first quarter of 2007. The Parent Company used the cash obtained from the dividend to fund its purchase of St. Joseph Capital Corporation during the first quarter of 2007. As a result of this special dividend, the Bank Subsidiary requires approval of regulatory authority for the payment of dividends to the Parent Company. Such approval was obtained for the payment of dividends at September 30, 2009.

**OFF-BALANCE SHEET ARRANGEMENTS**

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of our customers. Our banking affiliates have entered into various agreements to extend credit, including loan commitments of \$1.040 billion and standby letters of credit of \$104.5 million at September 30, 2009. At September 30, 2009, approximately \$990 million of the

loan commitments had fixed rates and \$50 million had floating rates, with the fixed rates ranging from 0% to 18%. At December 31, 2008, loan commitments were \$1.124 billion and standby letters of credit were \$108.4 million. The term of these off-balance sheet arrangements is typically one year or less.

During the second quarter of 2007, we entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of \$9.4 million at September 30, 2009.

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

The following table presents our significant fixed and determinable contractual obligations at September 30, 2009:

**CONTRACTUAL OBLIGATIONS**

| (dollars in thousands)                                 | Payments Due In         |                       |                        |                    | Total        |
|--|-------------------------|-----------------------|------------------------|--------------------|--------------|
|  | One Year<br>or Less (A) | One to<br>Three Years | Three to<br>Five Years | Over<br>Five Years |              |
| Deposits without stated maturity                       | \$ 3,656,434            | \$                    | \$                     | \$                 | \$ 3,656,434 |
| IRAs, consumer and brokered<br>certificates of deposit | 298,066                 | 1,270,566             | 375,532                | 93,757             | 2,037,921    |
| Short-term borrowings                                  | 326,076                 |                       |                        |                    | 326,076      |
| Other borrowings                                       | 10                      | 374,089               | 256,858                | 177,654            | 808,611      |
| Operating leases                                       | 8,317                   | 62,071                | 58,649                 | 319,702            | 448,739      |

(A) For the remaining three months of fiscal 2009.

We rent certain premises and equipment under operating leases. See Note 16 to the consolidated financial statements for additional information on long-term lease arrangements.

We are party to various derivative contracts as a means to manage the balance sheet and our related exposure to changes in interest rates, to manage our residential real estate loan origination and sale activity, and to provide derivative contracts to our clients. Since the derivative liabilities recorded on the balance sheet change frequently and do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 15 to the consolidated financial statements.

In the normal course of business, various legal actions and proceedings are pending against us and our affiliates which are incidental to the business in which they are engaged. Further discussion of contingent liabilities is included in Note 16 to the consolidated financial statements.

In addition, liabilities recorded under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB Statement No. 109) are not included in the table because the amount and timing of any cash payments cannot be reasonably estimated. Further discussion of income taxes and liabilities recorded under FASB ASC 740-10 is included in Note 14 to the consolidated financial statements.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008. Certain accounting policies require management to use significant judgment and estimates, which can have a material impact on the carrying value of certain assets and liabilities. We consider these policies to be critical accounting policies. The judgment and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from these judgments and estimates which could have a material affect on our financial condition and results of operations.

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

**Goodwill and Intangibles**

**Description.** For acquisitions, we are required to record the assets acquired, including identified intangible assets, and the liabilities assumed at their fair value. These often involve estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates or other relevant

factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective. Under FASB ASC 350 (SFAS No. 142 *Goodwill and Other Intangible Assets*), goodwill and indefinite-lived assets recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible asset.

## Table of Contents

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

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

## Allowance for Loan Losses

**Description.** The allowance for loan losses is maintained at a level believed adequate by management to absorb probable incurred losses in the consolidated loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, assessments of the impact of current and anticipated economic conditions on the portfolio and historical loss experience. The allowance represents management's best estimate, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on results of operations.

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

**Judgments and Uncertainties.** We use migration analysis as a tool to determine the adequacy of the allowance for loan losses for non-retail loans that are not impaired. Migration analysis is a statistical technique that attempts to estimate probable losses for existing pools of loans by matching actual losses incurred on loans back to their origination.

We calculate migration analysis using several different scenarios based on varying assumptions to evaluate the widest range of possible outcomes. The migration-derived historical commercial loan loss rates are applied to the current commercial loan pools to arrive at an estimate of probable losses for the loans existing at the time of analysis. The amounts determined by migration analysis are adjusted for management's best estimate of the effects of current economic conditions, loan quality trends, results from internal and external review examinations, loan volume trends, credit concentrations and various other factors. Historic loss ratios adjusted for expectations of future economic conditions are used in determining the appropriate level of allowance for consumer and residential real estate loans.

**Table of Contents**

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

Management's analysis of probable losses in the portfolio at September 30, 2009, resulted in a range for allowance for loan losses of \$7.4 million with the potential effect to net income ranging from a decrease of \$0.9 million to an increase of \$3.9 million. These sensitivities are hypothetical and are not intended to represent actual results.

**Derivative Financial Instruments**

**Description.** As part of our overall interest rate risk management, we use derivative instruments to reduce exposure to changes in interest rates and market prices for financial instruments. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items. To the extent hedging relationships are found to be effective, as determined by FASB ASC 815 (SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*), changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. Management believes hedge effectiveness is evaluated properly in preparation of the financial statements. All of the derivative financial instruments we use have an active market and indications of fair value can be readily obtained. We are not using the short-cut method of accounting for any fair value derivatives.

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

**Effect if Actual Results Differ From Assumptions.** To the extent hedging relationships are found to be effective, as determined by FASB ASC 815 (SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*), changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. However, if in the future the derivative financial instruments used by us no longer qualify for hedge accounting treatment, all changes in fair value of the derivative would flow through the consolidated statements of income in other noninterest income, resulting in greater volatility in our earnings.

**Income Taxes**

**Description.** We are subject to the income tax laws of the U.S., its states and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate. On January 1, 2007, we adopted FASB ASC 740-10 (FIN 48) to account for uncertain tax positions. FASB ASC 740-10 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 14 to the Consolidated Financial Statements for a further description of our provision and related income tax assets and liabilities.

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



## Table of Contents

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

## Valuation of Securities

**Description.** The fair value of our securities is determined with reference to price estimates. In the absence of observable market inputs related to items such as cash flow assumptions or adjustments to market rates, management judgment is used. Different judgments and assumptions used in pricing could result in different estimates of value.

When the fair value of a security is less than its amortized cost for an extended period, we consider whether there is an other than temporary impairment in the value of the security. If, in management's judgment, an other-than-temporary-impairment exists, the portion of the loss in value attributable to credit quality is transferred from accumulated other comprehensive loss as an immediate reduction of current earnings and the cost basis of the security is written down by this amount.

We consider the following factors when determining an other-than-temporary-impairment for a security or investment:

The length of time and the extent to which the market value has been less than amortized cost;

The financial condition and near-term prospects of the issuer;

The underlying fundamentals of the relevant market and the outlook for such market for the near future;

Our intent to sell the debt security or whether it is more likely than not that we will be required to sell the debt security before its anticipated recovery; and

When applicable for purchased beneficial interests, the estimated cash flows of the securities are assessed for adverse changes.

Quarterly, securities are evaluated for other-than-temporary-impairment in accordance with FASB ASC 320 (SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), and FASB ASC 325-10 (Emerging Issues Task Force No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets*) and FASB ASC 320-10 (FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). An impairment that is an other-than-temporary-impairment is a decline in the fair value of an investment below its amortized cost attributable to factors that indicate the decline will not be recovered over the anticipated holding period of the investment. Other-than-temporary-impairments result in reducing the security's carrying value by the amount of credit loss. The credit component of the other-than-temporary-impairment loss is realized through the statement of income and the remainder of the loss remains in other comprehensive income.

**Judgments and Uncertainties.** The determination of other-than-temporary-impairment is a subjective process, and different judgments and assumptions could affect the timing and amount of loss realization. In addition, significant judgments are required in determining valuation and impairment, which include making assumptions regarding the estimated prepayments, loss assumptions and interest cash flows.

**Effect if Actual Results Differ From Assumptions.** Actual credit deterioration could be more or less severe than estimated. Upon subsequent review, if cash flows have significantly improved, the discount would be amortized into earnings over the remaining life of the debt security in a prospective manner based on the amount and timing of future cash flows. Additional credit deterioration resulting in an adverse change in cash flows would result in additional other-than-temporary impairment loss recorded in the income



statement.

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

In this report, we have made various statements regarding current expectations or forecasts of future events, which speak only as of the date the statements are made. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are also made from time-to-time in press releases and in oral statements made by the officers of Old National. Forward-looking statements are identified by the words expect, may, could, intend, project, estimate, believe, anticipate and similar. Forward-looking statements also include, but are not limited to, statements regarding estimated cost savings, plans and objectives for future operations, 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 can not 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;

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

- our ability to achieve loan and deposit growth;

- volatility and direction of market interest rates;

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

- our ability to execute our business plan;

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

- changes in the securities markets; and

- changes in fiscal, monetary and tax policies.

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

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

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

**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

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

Evaluation of disclosure controls and procedures. Old National's principal executive officer and principal financial officer have concluded that Old National's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this Form 10-Q, are effective at the reasonable assurance level as discussed below to ensure that information required to be disclosed by Old National in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to Old National's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

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

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

**PART II. OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

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 Old National's Business**

*The current banking crisis, including the Enactment of the Emergency Economic Stabilization Act of 2008 ( EESA ) and the American Recovery and Reinvestment Act of 2009 ( ARRA ), may significantly affect our financial condition, results of operations, liquidity or stock price.*

**Table of Contents**

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers seemingly without regard to those issuers' underlying financial strength.

EESA, which established the Troubled Asset Relief Program ( TARP ), was signed into law in October 2008. As part of TARP, the Treasury established the Capital Purchase Program ( CPP ) to provide up to \$700 billion of funding to eligible financial institutions through the purchase of capital stock and other financial instruments for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Then, on February 17, 2009, President Obama signed ARRA, as a sweeping economic recovery package intended to stimulate the economy and provide for broad infrastructure, energy, health, and education needs. There can be no assurance as to the actual impact that EESA or its programs, including the CPP, and ARRA or its programs, will have on the national economy or financial markets. The failure of these significant legislative measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common shares.

There have been numerous actions undertaken in connection with or following EESA and ARRA by the Federal Reserve Board, Congress, the Treasury, the FDIC, the SEC and others in efforts to address the current liquidity and credit crisis in the financial industry that followed the sub-prime mortgage market meltdown which began in 2007. These measures include homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. The purpose of these legislative and regulatory actions is to help stabilize the U.S. banking system. EESA, ARRA and the other regulatory initiatives described above may not have their desired effects. If the volatility in the markets continues and economic conditions fail to improve or worsen, our business, financial condition and results of operations could be materially and adversely affected.

***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 the 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 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.***

The 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 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 the Bank or the borrowers. These factors include weather, commodity prices, and interest rates.

Credit quality issues may broaden in these sectors depending on the severity and duration of the declining economy and current credit cycle.

**Table of Contents*****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.

***We face risks with respect to future expansion.***

We may 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.

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 estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;
- 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; and
- the risk of loss of key employees and customers.

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 integration efforts for any future mergers or acquisitions will be successful. Also, we may issue equity securities in connection with future acquisitions, which could cause ownership and economic dilution to our current shareholders. There is no assurance that, following any future 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.

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

In Old National's market area, the Company 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. The Company's 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. Old National's profitability depends upon Old National's continued ability to compete successfully in Old National's market area.

***The loss of key members of Old National's senior management team could adversely affect Old National's business.***

Old National believes that Old National's success depends largely on the efforts and abilities of Old National's senior management. Their experience and industry contacts significantly benefit Old National. The competition for qualified personnel in the financial services industry is intense, and the loss of any of Old National's key personnel or an inability to continue to attract, retain and motivate key personnel could adversely affect Old National's business.

***A breach of information security or compliance breach by one of our agents or vendors could negatively affect Old National's reputation and business.***

Old National relies upon a variety of computing platforms and networks over the internet for the purposes of data processing, communication and information exchange. Despite the safeguards instituted by Old National, such systems are susceptible to a breach of security. In addition, Old National relies on the services of a variety of third-party vendors to meet Old National's data processing and communication needs. If confidential information is compromised, financial losses, costs and/or other damages could occur. Such costs and/or losses could materially affect Old National's earnings.

**Fiduciary Activity Risk Factor*****Old National Is Subject To Claims and Litigation Pertaining To Fiduciary Responsibility***

From time to time, customers make claims and take legal action pertaining to Old National's performance of its fiduciary responsibilities. If such claims and legal actions are not resolved in a manner favorable to Old National they may result in significant financial liability and/or adversely affect the market perception of Old National and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Old National's business, which, in turn, could have a material adverse effect on the Old National's financial condition and results of operations.

**Risks Related to the Banking Industry*****Changes in economic or political conditions could adversely affect Old National's earnings, as Old National's borrowers' ability to repay loans and the value of the collateral securing Old National's 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 the on-going 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, the 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 and Illinois could have an adverse impact on Old National's earnings.

**Table of Contents*****Current levels of market volatility are unprecedented***

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers seemingly without regard to those issuers' underlying financial strength. The current market volatility could contribute to a further decline in the market value of certain security investments and other assets of Old National and if current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on results of operations, capital or financial position.

***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 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.

***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 the Office of Comptroller of the Currency ( OCC ), the Federal Deposit Insurance Corporation ( FDIC ), the Board of Governors of the Federal Reserve System (the Federal Reserve ) and the State of Indiana. Applicable laws and regulations may change, and such changes may adversely affect Old National's business. 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. Regulatory authorities 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 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.

***Changes in technology could be costly.***

The banking industry is undergoing technological innovation at a fast pace. To keep up with its competition, Old National needs to stay abreast of innovations and evaluate those technologies that will enable it to compete on a cost-effective basis. The cost of such technology, including personnel, can be high in both absolute and relative terms. There can be no assurance, given the fast pace of change and innovation, that Old National's technology, either purchased or developed internally, will meet or continue to meet the needs of Old National.

***Our earnings could be adversely impacted by incidences of fraud and compliance failures that are not within our direct control.***

We are subject to fraud and compliance risk in connection with the origination of loans. Fraud risk 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 adversely impact the performance of our loan portfolio.



**Table of Contents****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.

***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.

***Old National's charter documents and federal regulations may inhibit a takeover, prevent a transaction that may favor or otherwise limit Old National's growth opportunities, which could cause the market price of Old National's common stock to decline.***

Certain provisions of Old National's charter documents and federal regulations could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of Old National. In addition, Old National must obtain approval from regulatory authorities before acquiring control of any other company.

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

| Period                   | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Total Number<br>of Shares  | Maximum<br>Number of<br>Shares that May<br>Yet<br>Be Purchased<br>Under<br>the Plans or<br>Programs |
|--------------------------|---|---------------------------------------|--|---|
|                          |   |                                       | Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans<br>or Programs |   |
| 07/01/09 - 07/31/09      | 204                                       | \$ 9.87                               | 204  |   |
| 08/01/09 - 08/31/09      |   |                                       |  |   |
| 09/01/09 - 09/30/09      |   |                                       |  |   |
| Quarter-to-date 09/30/09 | 204                                       | \$ 9.87                               | 204  |   |

The Company's stock repurchase program ended on December 31, 2008. Shares repurchased in the third quarter of 2009 relate to our employee compensation plans.

**ITEM 5. OTHER INFORMATION**

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

**Table of Contents****ITEM 6. EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 2.1                | Purchase and Assumption Agreement dated November 24, 2008 by and among Old National Bancorp, Old National Bank and RBS Citizens, National Association (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 25, 2008).   |
| 3.1                | Articles of Incorporation of Old National, amended December 10, 2008 (incorporated by reference to Exhibit 3.1 of Old National's Annual Report on Form 10-K for the year ended December 31, 2008).  |
| 3.2                | By-Laws of Old National, amended July 23, 2009 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009).  |
| 4.1                | Senior Indenture between Old National and The Bank of New York Trust Company (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One, NA)), as trustee, dated as of July 23, 1997 (incorporated by reference to Exhibit 4.3 to Old National's Registration Statement on Form S-3, Registration No. 333-118374, filed with the Securities and Exchange Commission on December 2, 2004). |
| 4.2                | Form of Indenture between Old National and J.P. Morgan Trust Company, National Association (as successor to Bank One, NA), as trustee (incorporated by reference to Exhibit 4.1 to Old National's Registration Statement on Form S-3, Registration No. 333-87573, filed with the Securities and Exchange Commission on September 22, 1999).   |
| 4.3                | Rights Agreement, dated March 1, 1990, as amended on February 29, 2000, between Old National Bancorp and Old National Bank, as trustee (incorporated by reference to Old National's Form 8-A, dated March 1, 2000).   |
| 4.4                | First Indenture Supplement dated as of May 20, 2005, between Old National and J.P. Morgan Trust Company, as trustee, providing for the issuance of its 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).   |
| 4.5                | Form of 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).  |
| 4.6                | Form of Certificate for the Old National Bancorp Fixed Rate Cumulative Perpetual Preferred Stock, Series T (incorporated by reference to Exhibit 4.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008).  |
| 4.7                | Warrant for the Purchase of shares of Old National Bancorp Common Stock (incorporated by reference to Exhibit 4.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008).   |
| 10.1               |   |

Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(a) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*

- 10.2 Second Amendment to the Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(b) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*

**Table of Contents**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.3               | 2005 Directors Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(c) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*   |
| 10.4               | Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(d) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*                         |
| 10.5               | Second Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(e) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.6               | Third Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(f) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*  |
| 10.7               | 2005 Executive Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(g) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*   |
| 10.8               | Summary of Old National Bancorp's Outside Director Compensation Program (incorporated by reference to Old National's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).*  |
| 10.9               | Old National Bancorp Short-Term Incentive Compensation Plan (incorporated by reference to Appendix II of Old National's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 16, 2005).*  |
| 10.10              | Old National Bancorp 1999 Equity Incentive Plan (incorporated by reference to Old National's Form S-8 filed on July 20, 2001).*  |
| 10.11              | First Amendment to the Old National Bancorp 1999 Equity Incentive Plan (incorporated by reference to Exhibit 10(f) of Old National's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*   |
| 10.12              | Form of 2005 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates, (incorporated by reference to Exhibit 10(r) of Old National's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005). *  |
| 10.13              | Form of Executive Stock Option Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(h) of Old National's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*   |
| 10.14              | Form of 2006 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.1 of Old National's Current Report  |

on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).\*

- 10.15 Form of 2006 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).\*

**Table of Contents**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10.16              | Form of 2006 Non-qualified Stock Option Agreement (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).*   |
| 10.17              | Form of 2007 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(w) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).*  |
| 10.18              | Form of 2007 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(x) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).*  |
| 10.19              | Form of 2007 Non-qualified Stock Option Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(y) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).*  |
| 10.20              | Lease Agreement, dated December 20, 2006 between ONB One Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(aa) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).  |
| 10.21              | Lease Agreement, dated December 20, 2006 between ONB 123 Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ab) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).  |
| 10.22              | Lease Agreement, dated December 20, 2006 between ONB 4 <sup>th</sup> Street Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ac) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).  |
| 10.23              | Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, and Old National Bank (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).                           |
| 10.24              | Lease Supplement No. 1 dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, Old National Bank and ONB Insurance Group, Inc. (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007). |
| 10.25              | Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #2, LLC, and Old National Bank (incorporated by reference to Exhibit 99.4 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).                           |
| 10.26              | Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #3, LLC, and Old National Bank (incorporated by reference to Exhibit 99.5 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).                           |

- 10.27 Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #4, LLC, and Old National Bank (incorporated by reference to Exhibit 99.6 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
- 10.28 Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #5, LLC, and Old National Bank (incorporated by reference to Exhibit 99.7 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).



**Table of Contents**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.29              | Form of Lease Agreement dated October 19, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2007).   |
| 10.30              | Form of Lease Agreement dated December 27, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (as incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 31, 2007).                                      |
| 10.31              | Form of 2008 Non-qualified Stock Option Award Agreement (incorporated by reference to Exhibit 99.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).*   |
| 10.32              | Form of 2008 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).*   |
| 10.33              | Form of 2008 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).*   |
| 10.34              | Form of Employment Agreement for Robert G. Jones, Daryl D. Moore, Barbara A. Murphy and Christopher A. Wolking (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 21, 2008).*  |
| 10.35              | Severance/Change in Control Agreement between Old National and Annette W. Hudgions (incorporated by reference to Exhibit 10.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 21, 2008).*  |
| 10.36              | Old National Bancorp 2008 Incentive Compensation Plan (incorporated by reference to Appendix II of Old National's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 27, 2008).*  |
| 10.37              | Old National Bancorp Code of Conduct (incorporated by reference to Exhibit 14.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 29, 2008).   |
| 10.38              | Letter Agreement dated December 12, 2008 by and between Old National Bancorp and the United States Department of Treasury which includes the Securities Purchase Agreement Standard Terms (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008). |
| 10.39              | Form of Senior Executive Officer Letter Agreement (incorporated by reference to Exhibit 10.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008).   |

Edgar Filing: OLD NATIONAL BANCORP /IN/ - Form 10-Q

- 10.40 Form of Waiver (incorporated by reference to Exhibit 10.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008).
- 10.41 Form of 2009 Performance Share Award Agreement – Internal Performance Measures between Old National and certain key associates (incorporated by reference to Old National's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).\*
- 10.42 Form of 2009 Performance Share Award Agreement – Relative Performance Measures between Old National and certain key associates (incorporated by reference to Old National's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).\*

**Table of Contents**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.43              | Form of 2009 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Old National's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).*  |
| 10.44              | Form of 2009 Executive Stock Option Agreement between Old National and certain key associates (incorporated by reference to Old National's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).*  |
| 10.45              | Purchase and Assumption Agreement dated November 24, 2008 by and among Old National Bank and RBS Citizens, National Association (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2009). |
| 10.46              | Preferred Stock Repurchase Agreement dated March 31, 2009 by and between Old National Bancorp and the United States Department of Treasury (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 31, 2009).   |
| 10.47              | Form of Termination of Senior Executive Officer Letter Agreement (incorporated by reference to Exhibit 10.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 31, 2009).   |
| 10.48              | Warrant Repurchase Agreement dated May 8, 2009 by and between Old National Bancorp and the United States Department of Treasury (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 11, 2009).  |
| 10.49              | Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National's Registration Statement on Form S-3, Registration No. 333-161394 filed with the Securities and Exchange Commission on August 17, 2009).  |
| 10.50              | Purchase Agreement dated September 17, 2009 between National City Commercial Capital Company, LLC, Old National Bank and Indiana Old National Insurance Company (incorporated by reference to Exhibit 10.01 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2009).   |
| 10.51              | Servicing Agreement dated September 17, 2009 between National City Commercial Capital Company, LLC, Old National Bank and Indiana Old National Insurance Company (incorporated by reference to Exhibit 10.02 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2009).  |
| 31.1               | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2               | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |

32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Management contract or compensatory plan or arrangement.

**Table of Contents**

**SIGNATURES**

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

**OLD NATIONAL BANCORP**

(Registrant)

By: /s/ Christopher A. Wolking

Christopher A. Wolking  
Senior Executive Vice President and Chief Financial  
Officer  
Duly Authorized Officer and Principal Financial  
Officer

Date: October 30, 2009

**Table of Contents**

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 31.1               | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2               | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1               | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2               | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |