OLD NATIONAL BANCORP /IN/
Form 10-K
February 26, 2010

UNITED STATES<br>SECURITIES AND EXCHANGE COMMISSION<br>Washington, D.C. 20549<br>FORM 10-K<br>Annual Report Pursuant to Section 13 or 15(d)<br>Of the Securities Exchange Act of 1934<br>For the fiscal year ended December 31, 2009<br>Commission File Number 1-15817<br>OLD NATIONAL BANCORP

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

## INDIANA

(State or other jurisdiction of incorporation or organization)

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

35-1539838
(I.R.S. Employer

Identification No.)

47708
(Zip Code)
(812) 464-1294
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act

Title of Each Class
Common Stock, No Par Value Preferred Stock Purchase Rights

Name of each exchange on which registered
New York Stock Exchange
$\mathbf{8 \%}$ Trust Preferred Securities of ONB Capital Trust II
(and Registrant s guaranty with respect thereto)

## New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the Registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes p No o
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No p
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes p No o 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 o No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o 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. (Check one)

| Large accelerated filer p $\quad$ Accelerated filer o | Non-accelerated filer o <br> (Do not check if a smaller <br> reporting company) | Smaller reporting <br> company o |
| :---: | :---: | :---: | :---: |
|  |  |  |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No b The aggregate market value of the Registrant s voting common stock held by non-affiliates on June 30, 2009, was $\$ 623,161,091$ (based on the closing price on that date of $\$ 9.82$ ). In calculating the market value of securities held by non-affiliates of the Registrant, the Registrant has treated as securities held by affiliates as of June 30, 2009, voting stock owned of record by its directors and principal executive officers, and voting stock held by the Registrant s trust department in a fiduciary capacity for benefit of its directors and principal executive officers. This calculation does not reflect a determination that persons are affiliates for any other purposes.
The number of shares outstanding of the Registrant s common stock, as of January 29, 2010, was 87,181,000.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 11, 2010, are incorporated by reference into Part III of this Form 10-K.

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## OLD NATIONAL BANCORP <br> 2009 ANNUAL REPORT ON FORM 10-K

## FORWARD-LOOKING STATEMENTS

In this report, we have made various statements regarding current expectations or forecasts of future events, which speak only as of the date the statements are made. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are also made from time-to-time in press releases and in oral statements made by the officers of Old National Bancorp ( Old National, or the Company ). Forward-looking statements are identified by the words expect, may, could, intend, project, believe , anticipate and similar expressions. 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.

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## PART I

## ITEM 1. BUSINESS

## GENERAL

Old National is a financial holding company incorporated in the State of Indiana and maintains its principal executive office in Evansville, Indiana. We, through our wholly owned banking subsidiary, provide a wide range of services, including commercial and consumer loan and depository services, investment and brokerage services, lease financing and other traditional banking services. Through our non-bank affiliates, we provide services to supplement the banking business including fiduciary and wealth management services, insurance and other financial services. As of December 31, 2009, we employed 2,812 full-time equivalent associates.

## COMPANY PROFILE

Old National Bank, our wholly owned banking subsidiary, ( Old National Bank ) was founded in 1834 and is the oldest company in Evansville, Indiana. In 1982, Old National was formed; in 2001 we became a financial holding company and we are currently the largest financial holding company headquartered in the state of Indiana. Also in 2001, we completed the consolidation of 21 bank charters enabling us to operate under a common name with consistent product offerings throughout the financial center locations, consolidating back-office operations and allowing us to provide more convenient service to clients. We provide financial services primarily in Indiana, eastern and southeastern Illinois, and central and western Kentucky.

## OPERATING SEGMENTS

We operate in two segments: community banking and treasury. Substantially all of our revenues are derived from customers located in, and substantially all of our assets are located in, the United States. A description of each segment follows.

## Community Banking Segment

The community banking segment operates through Old National Bank, and has traditionally been the most significant contributor to our revenue and earnings. The primary goal of the community banking segment is to provide products and services that address clients needs and help clients reach their financial goals by offering a broad array of quality services. Our financial centers focus on convenience factors such as location, space for private consultations and quick client access to routine transactions.
As of December 31, 2009, Old National Bank operated 172 banking financial centers located primarily in Indiana, Illinois, and Kentucky. The community banking segment primarily consists of lending and depository activities along with merchant cash management, internet banking and other services relating to the general banking business. In addition, the community banking segment includes Indiana Old National Insurance Company ( IONIC ), which reinsures credit life insurance. IONIC also provides property and casualty insurance for Old National and reinsures most of the coverage with non-affiliated carriers.

## Lending Activities

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

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## Depository Activities

We strive to serve individuals and commercial clients by providing depository services that fit their needs at competitive rates. We pay interest on the interest-bearing deposits and receive service fee revenue on various accounts. Deposit accounts include products such as noninterest-bearing demand, negotiable order of withdrawal ( NOW ), savings and money market, and time deposits. Debit and ATM cards provide clients with access to their accounts 24 hours a day at any ATM location. We also provide 24-hour telephone access and online banking as well as other electronic banking services.
Investment and Brokerage Services
We, through a registered third party broker-dealer, provide clients with convenient and professional investment services and a variety of brokerage products. This line of business offers a full array of investment options and investment advice to its clients.

## Treasury Segment

Treasury manages investments, wholesale funding, interest rate risk, liquidity and leverage for Old National. Treasury also provides capital markets products, including interest rate derivatives, foreign exchange and industrial revenue bond financing for our commercial clients.

## Other

The following lines of business are included in the other column for all periods reported:
Wealth Management
Fiduciary and trust services targeted at high net worth individuals are offered through an affiliate trust company under the business name of Old National Trust Company.
Insurance Agency Services
Through our insurance agency subsidiaries, we offer full-service insurance brokerage services including commercial property and casualty, surety, loss control services, employee benefits consulting and administration, and personal insurance. These subsidiaries are insurance agencies that offer products that are issued and underwritten by various insurance companies not affiliated with us.
Additional information about our business segments is included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 22 to the consolidated financial statements.

## MARKET AREA

We own the largest Indiana-based bank and one of the largest independent insurance agencies headquartered in Indiana. Operating from a home base in Evansville, Indiana, we have continued to grow our footprint in Indiana and Kentucky with continued expansion in the attractive Louisville, Indianapolis and Lafayette markets. In February 2007, we expanded into Northern Indiana by acquiring St. Joseph Capital Corporation, which had banking offices in Mishawaka and Elkhart, Indiana. In March 2009, we completed the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which consisted of 65 branches and a training facility. The branches are located primarily in the Indianapolis area.

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The following table reflects the market locations where we have a significant share of the deposit market. The market share data is by metropolitan statistical area. The Evansville, Indiana data includes branches in Henderson, Kentucky.

> Old National Deposit Market Share and Number of Branch Locations
> Deposits as of June 30, 2009

| Market Location | Number of <br> Branches | Deposit <br> Market <br> Share Rank |
| :--- | ---: | ---: |
| Central City, Kentucky | 4 | 1 st |
| Danville, Illinois | 3 | 1 st |
| Harrisburg, Illinois | 1 | 1 st |
| Evansville, Indiana | 20 | 2 nd |
| Terre Haute, Indiana | 6 | 2nd |
| Jasper, Indiana | 6 | 2nd |
| Carbondale, Illinois | 4 | 2nd |
| Vincennes, Indiana | 4 | 2nd |
| Washington, Indiana | 3 | 2nd |
| Muncie, Indiana | 6 | 3rd |
| Madisonville, Kentucky | 2 | 3rd |

## Source: FDIC

## ACQUISITION AND DIVESTITURE STRATEGY

Since the formation of Old National in 1982, we have acquired more than 40 financial institutions and financial services companies. Future acquisitions and divestitures will be driven by a disciplined financial process and will be consistent with the existing focus on community banking, client relationships and consistent quality earnings.
Targeted geographic markets for acquisitions include mid-size markets within or near our existing franchise with average to above average growth rates.
As with previous acquisitions, the consideration paid by us will be in the form of cash, debt or Old National stock. The amount and structure of such consideration is based on reasonable growth and cost savings assumptions and a thorough analysis of the impact on both long- and short-term financial results.

## COMPETITION

The banking industry and related financial service providers operate in a highly competitive market. Old National competes with financial service providers such as local, regional and national banking institutions, savings and loan associations, credit unions, finance companies, investment brokers, and mortgage banking companies. In addition, Old National s non-bank services face competition with asset managers and advisory services, money market and mutual fund companies and insurance agencies.

## SUPERVISION AND REGULATION

Old National is registered as a bank holding company and has elected to be a financial holding company. It is subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System ( Federal Reserve ) under the Bank Holding Company Act of 1956, as amended ( BHC Act ). The Federal Reserve has issued regulations under the BHC Act requiring a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. It is the policy of the Federal Reserve that, pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity.
The BHC Act requires the prior approval of the Federal Reserve to acquire more than a 5\% voting interest of any bank or bank holding company. Additionally, the BHC Act restricts Old National s non-banking activities to those which are determined by the Federal Reserve to be closely related to banking and a proper incident thereto.

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On July 30, 2002, the Senate and the House of Representatives of the United States (Congress ) enacted the Sarbanes-Oxley Act of 2002, a law that addresses, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely disclosures of corporate information. In response, the New York Stock Exchange also adopted new corporate governance rules that are intended to allow shareholders to more easily and efficiently monitor the performance of companies and directors.
Effective August 29, 2002, as directed by Section 302(a) of the Sarbanes-Oxley Act, Old National s principal executive officer and principal financial officer are required to certify that Old National s quarterly and annual reports do not contain any untrue statements of a material fact. The rules also require that these officers certify that they are responsible for establishing, maintaining and regularly evaluating the effectiveness of Old National s internal controls; they have made certain disclosures to auditors and the Audit Committee of the Board of Directors about internal controls; and they have included information in Old National s quarterly and annual reports about their evaluation and whether there have been significant changes in Old National s internal controls or in other factors that could significantly affect internal controls subject to the evaluation. Old National filed the Section 302(a) certifications with the SEC and the Listed Company Manual Section 303A.12(a) CEO certification with the New York Stock Exchange for the prior year. Old National s current year s Sarbanes-Oxley Section 302 certification is filed as an exhibit to this Form 10-K.
On October 26, 2001, the USA Patriot Act of 2001 was signed into law. Enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. on September 11, 2001, the Patriot Act is intended to strengthen U.S. law enforcement s and the intelligence community s ability to work cohesively to combat terrorism on a variety of fronts. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and the statute and regulations promulgated under it impose a number of significant obligations on entities subject to its provisions, including: (a) due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons; (b) standards for verifying customer identification at account opening; (c) rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (d) reports by non-financial trades and businesses filed with the U.S. Treasury Department s (the Treasury Department or the Treasury ) Financial Crimes Enforcement Network for transactions exceeding $\$ 10,000$; and (e) filing of suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws and regulations.
Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ( FDICIA ), a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become
undercapitalized (as defined in FDICIA) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal bank regulatory agency.
Bank holding companies are required to comply with the Federal Reserve s risk-based capital guidelines. The Federal Deposit Insurance Corporation ( FDIC ) and the Office of the Comptroller of the Currency ( OCC ) have adopted risk-based capital ratio guidelines to which depository institutions under their respective supervision are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Old National s banking affiliate, Old National Bank, met all risk-based capital requirements of the FDIC and OCC as of December 31, 2009. For Old National s regulatory capital ratios and regulatory requirements as of December 31, 2009, see Note 20 to the consolidated financial statements.
Old National Bank is subject to the provisions of the National Bank Act, is supervised, regulated and examined by the OCC, and is subject to the rules and regulations of the OCC, Federal Reserve and the FDIC.
A substantial portion of Old National s cash revenue is derived from dividends paid to it by Old National Bank. These dividends are subject to various legal and regulatory restrictions as summarized in Note 20 to the consolidated financial statements.
Both federal and state law extensively regulate various aspects of the banking business, such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities
and other aspects of banking operations. Branching by Old National Bank is subject to the jurisdiction and requires notice to or the prior approval of the OCC.

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Old National and Old National Bank are subject to the Federal Reserve Act, which restricts financial transactions between banks and affiliated companies. The statute limits credit transactions between banks, affiliated companies and its executive officers and its affiliates. The statute prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices, and restricts the types of collateral security permitted in connection with a bank s extension of credit to an affiliate. Additionally, all transactions with an affiliate must be on terms substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with nonaffiliated parties.
FDICIA accomplished a number of sweeping changes in the regulation of depository institutions, including Old National Bank. FDICIA requires, among other things, federal bank regulatory authorities to take prompt corrective action with respect to banks which do not meet minimum capital requirements. FDICIA further directs that each federal banking agency prescribe standards for depository institutions and depository institution holding companies relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, management compensation, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value of publicly traded shares and such other standards as the agency deems appropriate.
The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 allows for interstate banking and interstate branching without regard to whether such activity is permissible under state law. Bank holding companies may now acquire banks anywhere in the United States subject to certain state restrictions.
The Gramm-Leach-Bliley Act ( GLBA ) permits bank holding companies which have elected to become financial holding companies to engage in a substantially broader range of non-banking activities, including securities, investment advice and insurance activities, than is permissible for bank holding companies that have not elected to become financial holding companies. Old National has elected to be a financial holding company. As a result, Old National may underwrite and sell securities and insurance. It may acquire, or be acquired by, brokerage firms and insurance underwriters.
GLBA established new requirements for financial institutions to provide enhanced privacy protections to customers. In June of 2000, the Federal banking agencies jointly adopted a final regulation providing for the implementation of these protections. Financial institutions are required to provide notice to consumers which details its privacy policies and practices, describes under what conditions a financial institution may disclose nonpublic personal information about consumers to nonaffiliated third parties and provides an opt-out method which enables consumers to prevent the financial institution from disclosing customer information to nonaffiliated third parties. Financial institutions were required to be in compliance with the final regulation by July 1, 2001, and Old National was in compliance at such date and continues to be in compliance.
In October 2008, the Emergency Economic Stabilization Act of 2008 ( EESA ) was enacted. The EESA authorizes the Treasury Department to purchase from financial institutions and their holding companies up to $\$ 700$ billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program (TARP ). The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The Treasury Department has allocated $\$ 350$ billion towards the TARP Capital Purchase Program ( CPP ). Under the CPP, Treasury will purchase debt or equity securities from participating institutions. The TARP also will include direct purchases or guarantees of troubled assets of financial institutions. Participants in the CPP are subject to executive compensation limits and are encouraged to expand their lending and mortgage loan modifications. For details regarding Old National s participation in TARP, refer to the Financial Condition Capital section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations .
EESA also increased FDIC deposit insurance on most accounts from $\$ 100,000$ to $\$ 250,000$. This increase is in place until the end of 2013 and is covered by deposit insurance premiums paid by the banking industry.

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Following a systemic risk determination, the FDIC established a Temporary Liquidity Guarantee Program ( TLGP ) on October 14, 2008. The TLGP includes the Transaction Account Guarantee Program ( TAGP ), which provided unlimited deposit insurance coverage through December 31, 2009 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. Institutions participating in the TAGP pay a 10 basis points fee (annualized) on the balance of each covered account in excess of $\$ 250,000$, while the extra deposit insurance is in place. The TAGP has been extended through June 30, 2010. The TLGP also includes the Debt Guarantee Program ( DGP ), under which the FDIC guarantees certain senior unsecured debt of FDIC-insured institutions and their holding companies. The unsecured debt must be issued on or after October 14, 2008 and not later than October 31, 2009, and the guarantee is effective through the earlier of the maturity date or June 30, 2012. The DGP coverage limit is generally $125 \%$ of the eligible entity s eligible debt outstanding on September 30, 2008 and scheduled to mature on or before June 30, 2009 or, for certain insured institutions, 2\% of their liabilities as of September 30, 2008. Depending on the term of the debt maturity, the nonrefundable DGP fee ranges from 50 to 100 basis points (annualized) for covered debt outstanding until the earlier of maturity or June 30, 2012. The TAGP and DGP are in effect for all eligible entities, unless the entity opted out on or before December 5, 2008. Old National Bank elected to participate in the TAGP and both Old National Bank and Old National are eligible to participate in DGP.
On February 17, 2009, the American Recovery and Reinvestment Act of 2009 ( ARRA ) was signed into law by President Obama. ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including Old National, until the institution has repaid the Treasury, which is now permitted under ARRA without penalty and without the need to raise new capital, subject to the Treasury s consultation with the recipient s appropriate regulatory agency. Old National has been a TARP recipient, but has exercised its right to repay Treasury and is no longer subject to the compensation and corporate expenditure limits imposed by ARRA on TARP recipients. For details regarding Old National s participation in TARP, refer to the Financial Condition Capital section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations .
In addition to the matters discussed above, Old National Bank is subject to additional regulation of its activities, including a variety of consumer protection regulations affecting its lending, deposit and collection activities and regulations affecting secondary mortgage market activities. The earnings of financial institutions are also affected by general economic conditions and prevailing interest rates, both domestic and foreign and by the monetary and fiscal policies of the United States government and its various agencies, particularly the Federal Reserve.
Additional legislative and administrative actions affecting the banking industry may be considered by Congress, state legislatures and various regulatory agencies, including those referred to above. It cannot be predicted with certainty whether such legislative or administrative action will be enacted or the extent to which the banking industry in general or Old National and Old National Bank in particular would be affected.

## AVAILABLE INFORMATION

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

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## 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 EESA and ARRA, may significantly affect our financial
condition, results of operations, liquidity or stock price. condition, results of operations, liquidity or stock price.
The capital and credit markets continue to experience volatility and disruption. 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 TARP, was signed into law in October 2008. As part of TARP, the Treasury established the 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 sactual 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.

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Old National Bank originates commercial real estate loans, commercial loans, agricultural real estate loans, agricultural loans, consumer loans, and residential real estate loans primarily within Old National s market areas.

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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 Old National Bank or the borrowers. These factors include weather, commodity prices, and interest rates.
Credit quality issues may continue to broaden in these sectors during 2010 depending on the severity and duration of the declining economy and current credit cycle.

## 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;

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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.
Economic conditions have affected and could continue to adversely affect our revenues and profits.
In response to economic and market conditions, from time to time we have undertaken initiatives to reduce our cost structure where appropriate. These initiatives, as well as any future workforce and facilities reductions, may not be sufficient to meet current and future changes in economic and market conditions and allow us to achieve profitability. In addition, costs actually incurred in connection with our restructuring actions may be higher than our estimates of such costs and/or may not lead to the anticipated cost savings. Unless and until the economy, loan demand, credit quality and consumer confidence improve, it is unlikely that revenues will increase significantly, and may be reduced further.
Old National operates in an extremely competitive market, and Old National sbusiness 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. The occurrence of any failures, interruptions or security breaches of Old National s information systems or our vendors information systems could damage our reputation, result in a loss of customer business, and expose us to civil litigation and possible financial loss. Such costs and/or losses could materially affect Old National s earnings.

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## 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.

## Markets are currently volatile

The capital and credit markets continue to experience volatility and disruption. 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.

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## 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. In addition, the Treasury has certain supervisory and oversight duties and responsibilities under EESA and the CPP. See Business Supervision and Regulation herein. Applicable laws and regulations may change, and such changes may adversely affect Old National s business. 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.
Our Internal Operations are Subject to a Number of Risks.
Old National s internal operations are subject to certain risks, including but not limited to, data processing system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. Operational risk resulting from inadequate or failed internal processes, people, and systems includes the risk of fraud by employees or persons outside of our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.
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.
Financial institutions are inherently exposed to fraud risk. A fraud can be perpetrated by a customer of the Bank, an employee, a vendor, or members of the general public. We are most subject to fraud and compliance risk in connection with the origination of loans, ACH transactions, ATM transactions and checking transactions. Our largest fraud risk, associated with the origination of loans, includes the intentional misstatement of information in property appraisals or other underwriting documentation provided to us by third parties. Compliance risk is the risk that loans are not originated in compliance with applicable laws and regulations and our standards. There can be no assurance that we can prevent or detect acts of fraud or violation of law or our compliance standards by the third parties that we deal with. Repeated incidences of fraud or compliance failures would adversely impact the performance of our loan portfolio.

## Risks Related to Old National s 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.

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## 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. On February 2, 2010 Old National s Board of Directors elected not to extend the Old National Rights Agreement, which expires on March 1, 2010.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

## None.

## ITEM 2. PROPERTIES

The executive offices of Old National are located at 1 Main Street, Evansville, Indiana. This building, which houses Old National s general corporate functions, is leased from an unaffiliated third party. The lease term expires December 31, 2031, and provides for the tenant s option to extend the term of the lease for four five-year periods. In addition, during 2007, 2008 and 2009, eighty-six financial centers were sold in a series of sale leaseback transactions to unaffiliated third parties. These properties are leased back from the landlord with lease terms ranging from ten to twenty-four years. See Note 18 to the consolidated financial statements.
As of December 31, 2009, Old National and its affiliates operated a total of 172 banking centers, loan production or other financial services offices, primarily in the states of Indiana, Illinois and Kentucky. Of these facilities, 4 were owned and 168 were leased from unaffiliated third parties.

## ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, Old National and its subsidiaries have been named, from time to time, as defendants in various legal actions. Certain of the actual or threatened legal actions 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.

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In November 2002, several beneficiaries of certain trusts filed a complaint against Old National 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 permitted Old National to file a new motion for summary judgment with respect to issues that had not been resolved by the Court. On December 10, 2009, the Court granted Old National partial summary judgment and also granted a motion by Plaintiffs to amend their complaint. The Court s December 10, 2009 Order permits Old National to file a new motion for summary judgment on the amended complaint. Old National filed its motion for summary judgment on January 22, 2010. The briefing schedule on the motion is now complete and it is 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.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of Old National during the fourth quarter of 2009.

## PART II

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

Old National s common stock is traded on the New York Stock Exchange ( NYSE ) under the ticker symbol ONB. The following table lists the high and low closing sales prices as reported by the NYSE, share volume and dividend data for 2009 and 2008:

|  | Price Per Share |  |  |  | Volume | Dividend <br> Declared |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | High |  | Low |  |  |  |  |
| 2009 |  |  |  |  |  |  |  |
| First Quarter | \$ | 18.11 | \$ | 8.97 | 52,994,300 | \$ | 0.23 |
| Second Quarter |  | 15.15 |  | 9.82 | 41,854,300 |  | 0.07 |
| Third Quarter |  | 12.66 |  | 9.08 | 46,979,700 |  | 0.07 |
| Fourth Quarter |  | 12.58 |  | 9.85 | 57,355,000 |  | 0.07 |
| 2008 |  |  |  |  |  |  |  |
| First Quarter | \$ | 19.26 | \$ | 13.26 | 60,502,700 | \$ |  |
| Second Quarter |  | 19.13 |  | 14.26 | 50,756,900 |  | 0.23 |
| Third Quarter |  | 25.00 |  | 12.71 | 74,613,700 |  | 0.23 |
| Fourth Quarter |  | 20.80 |  | 14.14 | 46,792,400 |  | 0.23 |

There were 26,204 shareholders of record as of December 31, 2009. Old National declared cash dividends of $\$ 0.44$ per share during the year ended December 31, 2009. Old National declared cash dividends of $\$ 0.69$ per share for 2008 and a cash dividend of $\$ 0.23$ for the first quarter of 2008 during the year ended December 31, 2007. Old National s ability to pay cash dividends depends primarily on cash dividends received from Old National Bank.

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Dividend payments from Old National Bank are subject to various regulatory restrictions. See Note 20 to the consolidated financial statements for additional information.
The following table summarizes the purchases of equity securities made by Old National during the fourth quarter of 2009:

|  |  |  | Total Number of Shares |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Total | Average | Purchased as | Maximum Number of Shares that May |
|  | Number | Price | Publicly | Yet |
|  |  |  | Announced | Be Purchased |
|  | of Shares | Paid Per | Plans | Under |
| Period | Purchased | Share | or Programs | the Plans or Programs |


| $10 / 01 / 09-10 / 31 / 09$ |  | $\$$ |  |  |
| :--- | :---: | :---: | :---: | :---: |
| $11 / 01 / 09-11 / 30 / 09$ | 93 |  | 12.12 | 93 |
| $12 / 01 / 09-12 / 31 / 09$ |  | $\$ 3$ | 12.12 | 93 |
| Total | 93 |  |  |  |

During 2009, Old National repurchased a limited number of shares associated with employee share-based incentive programs but did not repurchase any shares on the open market. There were no Board approved repurchase plans or programs for the repurchase of stock as of December 31, 2009, except for those associated with employee share-based incentive programs.

## EQUITY COMPENSATION PLAN INFORMATION

The following table contains information concerning the 2008 Equity Incentive Plan approved by security holders, as of December 31, 2009.

## 2008 EQUITY COMPENSATION PLAN

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plan (c) |
| :---: | :---: | :---: | :---: |
| Equity compensation plans approved by security holders | 6,530,936 | 20.37 | 1,346,982 |
| Equity compensation plans not approved by security holders |  |  |  |
| Total | 6,530,936 | 20.37 | 1,346,982 |

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The following table compares cumulative five-year total shareholder returns, assuming reinvestment of dividends, for the Company s common stock to cumulative total returns of a broad-based equity market index and two published industry indices.
The comparison of shareholder returns (change in December year end stock price plus reinvested dividends) for each of the periods assumes that $\$ 100$ was invested on December 31, 2004, in common stock of each of the Company, the S\&P Small Cap 600 Index, the NYSE Financial Index and the SNL Bank and Thrift Index with investment weighted on the basis of market capitalization.

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## ITEM 6. SELECTED FINANCIAL DATA


iency ratio (noninterest
ase/revenue) (1)
harge-offs to average loans (3)
vance for loan losses to ending loans (6)

## r Data

ber of full-time equivalent employees
ber of shareholders
ber of shares traded (in thousands)

| $\mathbf{8 1 . 5 4}$ | 69.18 | 71.01 | 68.54 | 65.58 | 73.92 |
| ---: | ---: | ---: | ---: | ---: | ---: |
| $\mathbf{1 . 3 7}$ | 0.87 | 0.44 | 0.37 | 0.60 | 0.61 |
| $\mathbf{1 . 8 1}$ | 1.41 | 1.20 | 1.44 | 1.61 | 1.73 |
|  |  |  |  |  |  |
| $\mathbf{2 , 8 1 2}$ | 2,507 | 2,494 |  |  |  |
| $\mathbf{2 6 , 2 0 4}$ | 25,372 | 30,086 |  |  |  |
| $\mathbf{1 9 9 , 1 8 3}$ | 232,666 | 99,851 |  |  |  |

(1) Includes the effect of taxable equivalent adjustments of $\$ 20.8$ million for 2009,
\$19.3 million for 2008, \$
17.2 million for 2007,
$\$ 19.5$ million for 2006,
$\$ 21.5$ million for 2005, and $\$ 23.9$ million for 2004, using the federal statutory tax rate in effect of $35 \%$ for all periods.
(2) All share and per share data have been adjusted for stock dividends. Diluted data assumes the exercise of stock options and the vesting of restricted stock.
(3) Includes
residential loans
and finance
leases held for
sale.
(4) Common stock dividends divided by income available
to common
stockholders.
(5) 2007 includes cash dividends of $\$ .88$ paid in 2007 and cash
dividends of \$.23
declared for the
first quarter of 2008.
(6) Excludes residential loans and finance leases held for sale.
$\mathrm{N} / \mathrm{M}=$ Not meaningful

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## ITEM 7. 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 fiscal years ended December 31, 2009, 2008 and 2007, and financial condition as of December 31, 2009 and 2008. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business. Readers are cautioned that, by their nature, forward-looking statements are based on estimates and assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from our expectations that are expressed or implied by any forward-looking statement. The discussion in Item 1A, Risk Factors, lists some of the factors that could cause our actual results to vary materially from those expressed or implied by any forward-looking statements, and such discussion is incorporated into this discussion by reference.
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 became 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 $10-\mathrm{K}$ are provided under the new FASB ASC structure with the prior terminology included parenthetically.

## GENERAL OVERVIEW

Old National is a financial holding company incorporated in the State of Indiana and maintains its principal executive offices in Evansville, Indiana. Old National, through Old National Bank, provides a wide range of services, including commercial and consumer loan and depository services, lease financing and other traditional banking services. Old National also provides services to supplement the traditional banking business including fiduciary and wealth management services, investment and brokerage services, investment consulting, insurance and other financial services.
The Company s basic mission is to be THE community bank in the cities and towns it serves. The Company focuses on establishing and maintaining long-term relationships with customers, and is committed to serving the financial needs of the communities in its market area. Old National provides financial services primarily in Indiana, eastern and southeastern Illinois, and central and western Kentucky.

## CORPORATE DEVELOPMENTS IN FISCAL 2009

Old National continues to be affected by a challenging credit environment and the continued economic slowdown. Net income for 2009 was $\$ 13.7$ million, a decrease of $\$ 48.7$ million from 2008. Diluted earnings per share available to common shareholders were $\$ 0.14$ per share, a decrease of $\$ 0.81$ per share from 2008.
Our lower net income in 2009 was primarily due to the following:
The provision for credit losses increased by $\$ 11.8$ million compared to 2008 as the economic slowdown continued to challenge our clients;

Certain securities in our investment portfolio experienced other-than-temporary impairment of $\$ 24.8$ million during 2009 as a result of credit deterioration of the underlying collateral;

Our Federal Deposit Insurance Corporation ( FDIC ) insurance expense increased by $\$ 10.9$ million from 2008 due to the FDIC s adoption of the restoration plan and special assessment of FDIC insurance expense;

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Our company owned life insurance policies yielded $\$ 6.8$ million less than in 2008 as a result of restructuring to preserve cash surrender value; and

Net interest income decreased by $\$ 11.9$ million and our net interest margin decreased by 30 basis points from the end of 2008, reflecting the effects of a decreasing interest rate environment and lower loan balances.
Other significant actions taken during 2009 include:
Old National completed the acquisition of Citizens Financial s Indiana franchise in the first quarter of 2009. This acquisition added 65 locations to our footprint and positions Old National as the third largest branch network in the state of Indiana.

On March 31, 2009, Old National repurchased all of the $\$ 100$ million in preferred, non-voting stock that was sold to the U.S. Department of Treasury as part of the CPP. In May, 2009, Old National repurchased the Warrants for up to 813,008 shares of the Company s common stock issued by the Company to the Treasury on December 12, 2008 for $\$ 1.2$ million. This repurchase was the final phase required of Old National to end its participation in the CPP.

During the third quarter, we significantly strengthened our capital position with a successful stock offering. Proceeds from the issuance of 20.7 million shares, net of issuance costs, were $\$ 195.7$ million.

During the fourth quarter, we reduced long-term debt, a more expensive source of funding, by $\$ 105$ million. Also, in response to economic and market conditions, Old National s board approved a plan to reduce our cost structure. This initiative includes a workforce reduction and rationalization of our financial center network.
Our balance sheet is well positioned given the current economic environment. We continue to maintain strong liquidity and have substantial resources for sound lending and investment opportunities.
Credit metrics remain well controlled relative to the industry. At December 31, 2009, our reserve for loan losses was $\$ 69.5$ million, compared to $\$ 67.1$ million at December 31, 2008. The allowance for loan losses equaled $104 \%$ of nonperforming loans at December 31, 2009 compared to $105 \%$ at December 31, 2008. Net charge-offs were $1.37 \%$ of average loans in 2009 compared to $0.87 \%$ in 2008.

## BUSINESS OUTLOOK

We believe 2010 will be just as difficult, if not more difficult, for the banking sector as was 2009. Loan demand remains soft in our markets as clients wait to see if the economic recovery is real. While we think our credit quality is well controlled, we expect provision to remain elevated relative to historical levels. In addition, we anticipate increasing regulatory and political changes throughout 2010.
While there are many near-term challenges, we believe Old National is well-positioned for longer-term opportunities. Management s focus on the expense base should help the Company emerge from this extended negative credit cycle as a more efficient and profitable core banking franchise. In addition, we continue to look for accretive acquisitions in existing or adjacent markets, and our strong capital position will allow us to add to the value of the Company when the opportunity is right.

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## RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the years ended December 31, 2009, 2008, and 2007:
(dollars in thousands)
Income Statement Summary:
Net interest income
Provision for loan losses
Noninterest income
Noninterest expense

## Other Data:

Return on average common equity
Efficiency ratio
Tier 1 leverage ratio
Net charge-offs to average loans
Comparison of Fiscal Years 2009 and 2008

## Net Interest Income

Net interest income was the most significant component of our earnings, comprising over $60 \%$ of 2009 revenues. Net interest income and net interest margin in the following discussion are presented on a fully taxable equivalent basis, which adjusts tax-exempt interest income to an amount that would be comparable to interest subject to income taxes. Net income is unaffected by these taxable equivalent adjustments as an offsetting increase of the same amount is made in the income tax section. Net interest income included taxable equivalent adjustments of $\$ 20.8$ million for 2009 and $\$ 19.3$ million for 2008.
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 certain 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 the mix of assets and funding and the net interest income and margin.
Taxable equivalent net interest income was $\$ 252.2$ million in 2009, a $4.0 \%$ decrease from the $\$ 262.7$ million reported in 2008. The net interest margin was $3.52 \%$ for 2009 , a 30 basis point decrease compared to the $3.82 \%$ reported in 2008. The decrease in both net interest income and net interest margin is primarily due to the decrease in earning asset yield being greater than the decrease in the cost of funding, combined with a change in the mix of interest earning assets and interest-bearing liabilities. Although the cost of interest bearing liabilities declined by 70 basis points, the decrease was more than offset by the 95 basis decrease in the yield on average assets. The yield on average earning assets decreased from $5.99 \%$ to $5.04 \%$ while the cost of interest-bearing liabilities decreased from $2.52 \%$ to $1.82 \%$. Average earning assets increased by $\$ 290.3$ million, or $4.2 \%$. Average interest-bearing liabilities increased $\$ 101.4$ million, or $1.7 \%$. The increase in average earning assets consisted of a $\$ 550.1$ million increase in lower yielding investment securities, a $\$ 276.3$ million decrease in loans and a $\$ 16.5$ million increase in federal funds sold and money market investments. The increase in average interest-bearing liabilities consisted of a $\$ 189.2$ million increase in interest-bearing deposits, an $\$ 89.8$ million decrease in short-term borrowings and a $\$ 2.0$ million increase in other borrowings. Noninterest-bearing deposits increased by $\$ 183.4$ million.
Fluctuation in interest rates has a notable effect on the volume, mix and yield of average earning assets. The target federal funds rate, the rate that dictates national prime rate and determines many other short-term loan and liability rates, started to decline in September 2007 and was $4.25 \%$ at December 31, 2007. The decline continued during 2008 as the economy deteriorated and reached an effective rate of $0 \%$ at December 31, 2008 and throughout 2009.

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Significantly affecting average earning assets during 2009 was the increase in the size of the investment portfolio combined with the reduction in the size of the loan portfolio. During 2009, approximately $\$ 2.373$ billion of investment securities were purchased and $\$ 1.396$ billion 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 continue to be affected by 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. The $\$ 94.8$ million decline in average commercial loans during 2009 was combined with a $\$ 87.8$ million decrease in average commercial real estate loans. We sold $\$ 2.6$ million of commercial and commercial real estate loans during 2009. In 2008, we sold $\$ 2.2$ million of commercial loans. 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.
Included in deposits at December 31, 2009 are $\$ 84.4$ million of noninterest-bearing deposits and $\$ 123.3$ million of time deposits from the Citizens Financial branch acquisition. During 2009, $\$ 81.0$ million of high cost brokered certificates of deposit were called and $\$ 70.0$ million of retail certificates of deposit were called. In the fourth quarter of 2009, we prepaid $\$ 105.0$ million of FHLB advances. During 2009, a total of $\$ 130.0$ million of FHLB advances were prepaid. During 2008, $\$ 137.6$ million of high cost brokered certificates of deposit were called or matured and $\$ 100.5$ million of retail certificates of deposit were called. A $\$ 50$ million bank note matured in the first quarter of 2008 and $\$ 100$ million of medium-term notes matured in the second quarter of 2008. In addition, $\$ 51$ million of FHLB advances matured in the last half of 2008 and a revolving credit facility with $\$ 55$ million outstanding was paid off in the fourth quarter of 2008. 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.
The following table presents a three-year average balance sheet and for each major asset and liability category, its related interest income and yield or its expense and rate for the years ended December 31.

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## THREE-YEAR AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS


est-Bearing Liabilities
d deposits
gs deposits
ey market deposits
deposits
interest-bearing deposits
-term borrowings
borrowings
interest-bearing liabilities
nterest-Bearing Liabilities

| and deposits | $\mathbf{1 , 0 1 8 , 4 0 5}$ | 834,981 | 828,461 |
| :--- | ---: | ---: | ---: |
| liabilities | $\mathbf{2 2 8 , 6 4 6}$ | 205,235 | 139,303 |
| holders equity | $\mathbf{7 2 3 , 8 9 9}$ | 660,169 | 641,848 |

## est Margin Recap

est income/average earning assets est expense/average earning assets
nterest income and margin
(1) Includes U.S.

Government-sponsored entities and agency mortgage-backed securities.
(2) Includes principal balances of nonaccrual loans. Interest income relating to nonaccrual loans is included only if received.
(3) Interest on state and political subdivision investment securities and commercial loans includes the effect of taxable equivalent adjustments of $\$ 9.7$ million and
$\$ 11.1$ million, respectively, in 2009; $\$ 7.7$ million and $\$ 11.6$ million, respectively, in 2008; and $\$ 6.3$ million and $\$ 10.8$ million, respectively, in 2007; using the federal statutory tax rate in effect of $35 \%$ for all periods.
(4) Includes finance leases held for sale.
(5) Includes residential loans held for sale.
(6)

Yield information does
not give effect to
changes in fair value
that are reflected as a component of
shareholders equity.
(7) The 2009 average balance includes
$\$ 41.5$ million of required and excess balances held at the Federal Reserve. The Federal Reserve paid $0.25 \%$ on these funds which was recorded in noninterest income.

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The following table shows fluctuations in net interest income attributable to changes in the average balances of assets and liabilities and the yields earned or rates paid for the years ended December 31.
NET INTEREST INCOME RATE/VOLUME ANALYSIS (tax equivalent basis, dollars in thousands)

|  | 2009 vs. 2008 |  |  | 2008 vs. 2007 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Total Change | Attributed to |  | Total Change | Attributed to |  |
|  |  | Volume | Rate |  | Volume | Rate |
| Interest Income |  |  |  |  |  |  |
| Federal funds sold and money market investments | \$ (613) | \$ 310 | \$ (923) | \$ (5,520) | \$ (4,163) | \$ (1,357) |
| Investment securities (1) | 18,894 | 28,310 | $(9,416)$ | $(2,273)$ | $(6,876)$ | 4,603 |
| Loans (1) | $(68,621)$ | $(15,806)$ | $(52,815)$ | $(58,887)$ | $(7,639)$ | $(51,248)$ |
| Total interest income | (50,340) | 12,814 | $(63,154)$ | $(66,680)$ | $(18,678)$ | $(48,002)$ |
| Interest Expense |  |  |  |  |  |  |
| NOW deposits | $(5,882)$ | 4 | $(5,886)$ | $(25,266)$ | $(3,169)$ | $(22,097)$ |
| Savings deposits | $(9,334)$ | 472 | $(9,806)$ | $(2,222)$ | 5,135 | $(7,357)$ |
| Money market deposits | $(5,015)$ | (311) | $(4,704)$ | $(18,167)$ | $(5,737)$ | $(12,430)$ |
| Time deposits | $(7,594)$ | 6,436 | $(14,030)$ | $(42,005)$ | $(23,583)$ | $(18,422)$ |
| Short-term borrowings | $(9,492)$ | (914) | $(8,578)$ | $(7,291)$ | 4,427 | $(11,718)$ |
| Other borrowings | $(2,602)$ | 103 | $(2,705)$ | 1,971 | 11,578 | $(9,607)$ |
| Total interest expense | $(39,919)$ | 5,790 | $(45,709)$ | $(92,980)$ | $(11,349)$ | $(81,631)$ |
| Net interest income | \$ (10,421) | \$ 7,024 | \$ (17,445) | \$ 26,300 | \$ (7,329) | \$ 33,629 |

The variance not solely due to rate or volume is allocated equally between the rate and volume variances.
(1) Interest on
investment
securities and
loans includes
the effect of
taxable
equivalent
adjustments of
$\$ 9.7$ million and
$\$ 11.1$ million,
respectively, in
2009;
$\$ 7.7$ million and
$\$ 11.6$ million,
respectively, in
2008; and
$\$ 6.3$ million and
$\$ 10.8$ million,
respectively, in
2007; using the

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federal statutory
rate in effect of
$35 \%$ for all
periods.

## Provision for Loan Losses

The provision for loan losses was $\$ 63.3$ million in 2009 , an $\$ 11.8$ million increase from the $\$ 51.5$ million recorded in 2008. The higher provision in 2009 is primarily attributable to the increase in net charge-offs. During the fourth quarter of 2009 we recorded a charge-off of $\$ 12.0$ million for one non-real estate commercial loan. Included in 2009 net charge-offs is a $\$ 3.1$ million insurance recovery associated with the misconduct of a former loan officer in the Indianapolis market. For additional information about non-performing loans, charge-offs and additional items impacting the provision, refer to the Risk Management Credit Risk section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations .

## Noninterest Income

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products and insurance. This source of revenue has remained relatively constant as a percentage of total revenue at $39.3 \%$ in 2009 compared to $38.9 \%$ in 2008.
Noninterest income for 2009 was $\$ 163.5$ million, a decrease of $\$ 3.5$ million, or $2.1 \%$ compared to $\$ 167.0$ million reported for 2008 . Net securities gains were $\$ 2.5$ million during 2009 compared to $\$ 7.6$ million for 2008. Included in 2009 is $\$ 24.8$ million for other-than-temporary-impairment on six pooled trust preferred securities and ten non-agency mortgage-backed securities. The 2008 net securities gains were primarily the result of securities which were called by the issuers. Also affecting noninterest income in 2009 is a $\$ 10.0$ million increase in service charges on deposit accounts, a $\$ 3.3$ million increase in ATM and debit card fees and a $\$ 1.9$ million increase in gains on derivatives. Partially offsetting these increases were a $\$ 6.8$ million decrease in revenue from company-owned life insurance, a $\$ 1.4$ million decrease in wealth management fees and a $\$ 4.1$ million decrease in other income. Wealth management fees were $\$ 16.0$ million during 2009 compared to $\$ 17.4$ million during 2008. Trust fee income has declined in connection with the lower market values of managed assets.

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Service charges and overdraft fees on deposit accounts increased by $\$ 10.0$ million to $\$ 55.2$ million in 2009 as compared to $\$ 45.2$ million in 2008. The increase in revenue is primarily attributable to the acquisition of the retail branch banking network of Citizens Financial Group in March 2009. Service charges and overdraft fees might be adversely affected in 2010 pending future regulatory developments.
ATM fees increased by $\$ 3.3$ million to $\$ 20.5$ million in 2009 as compared to $\$ 17.2$ million in 2008. The increase in debit card usage is primarily attributable to the Citizens Financial branch acquisition.
Revenue from company-owned life insurance was $\$ 2.4$ million in 2009 compared to $\$ 9.2$ million in 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 from company-owned life insurance in 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 gains on derivatives of $\$ 0.7$ million in 2009 as compared to losses on derivatives of $\$ 1.1$ million in 2008.
Other income decreased $\$ 4.1$ million in 2009 as compared to 2008 . Included in the third quarter of 2009 is a $\$ 1.4$ million loss from the sale of approximately $\$ 258.0$ million of leases held for sale, net of transactions fees. Included in 2008 was a $\$ 1.5$ million gain associated with the redemption of class B VISA shares recorded during the first quarter of 2008.
The following table presents changes in the components of noninterest income for the years ended December 31.

## NONINTEREST INCOME

|  |  |  | $\begin{array}{c}\text { \% Change From } \\ \text { Prior Year }\end{array}$ |  |  |
| :--- | :---: | ---: | :---: | ---: | :---: |
| (dollars in thousands) | $\mathbf{2 0 0 9}$ | $\mathbf{2 0 0 8}$ | $\mathbf{2 0 0 7}$ | $\mathbf{2 0 0 9}$ | $\mathbf{2 0 0 8}$ |$)$

(1) Total revenue
includes the
effect of a
taxable
equivalent
adjustment of
$\$ 20.8$ million in 2009, $\$ 19.3$ million in 2008 and $\$ 17.2$ million in 2007.
$\mathrm{N} / \mathrm{M}=$ Not meaningful
Noninterest Expense
Noninterest expense for 2009 totaled $\$ 339.0$ million, an increase of $\$ 41.7$ million, or $14.0 \%$ from the $\$ 297.2$ million recorded in 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. Included in 2008 was a $\$ 6.3$ million fraud loss expense.

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Salaries and benefits, the largest component of noninterest expense, totaled $\$ 181.4$ million in 2009, compared to $\$ 167.8$ million in 2008, an increase of $\$ 13.6$ million, or $8.1 \%$. Included in 2009 is approximately $\$ 14.5$ million of personnel expense associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group and $\$ 3.4$ million for higher medical insurance expense. Partially offsetting these increases was a $\$ 3.1$ million decrease in performance-based incentive compensation expense.
Occupancy expense increased $\$ 7.4$ million in 2009, primarily as a result of a $\$ 3.2$ million increase in rent expense and a $\$ 2.1$ million increase in amortization of leasehold improvements. The increase in rent expense is primarily related to 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. Real estate taxes increased $\$ 0.7$ million during 2009 as compared to 2008. Further discussion of the sale leaseback transactions is included in Note 18 to the consolidated financial statements.
Professional fees increased $\$ 2.3$ million for 2009 as compared to 2008. The increase is primarily attributable to legal and other professional fees associated with the acquisition of the Citizen Financial branch network.
Supplies expense increased $\$ 1.0$ million, or $30.8 \%$, in 2009 primarily as a result of expense associated with the acquisition of the Citizen Financial branch network.
Fraud loss expense in 2008 included a $\$ 6.3$ million charge associated with a check fraud scheme conducted by a commercial customer of Old National Bank.
FDIC assessment expense totaled $\$ 12.4$ million in 2009, compared to $\$ 1.5$ million for 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. In the fourth quarter of 2009, the FDIC announced that it would require insured institutions to prepay their estimated 2010, 2011 and 2012 assessments in the current year. As of December 31, 2009, our prepaid assessment was $\$ 30.8$ million and will be expensed over the next three years as the actual FDIC assessments are determined.
The increase in the expense for amortization of intangibles 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 noninterest expense totaled $\$ 22.1$ million for 2009 compared to $\$ 13.8$ million for 2008, an increase of $\$ 8.3$ million, or $60.2 \%$. Loss on extinguishment of debt increased $\$ 4.5$ million in 2009 as we terminated four FHLB advances with a total book value of $\$ 105.0$ million in the fourth quarter of 2009. The provision for unfunded commitments increased $\$ 2.2$ million for 2009 as compared to 2008 . Other real estate expenses increased $\$ 1.1$ million in 2009 as compared to 2008. Included in 2009 is approximately $\$ 1.1$ million of conversion expenses related to the acquisition of the retail branch banking network of Citizens Financial Group.

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The following table presents changes in the components of noninterest expense for the years ended December 31. NONINTEREST EXPENSE

| (dollars in thousands) | 2009 |  | 2008 |  | 2007 |  | \% Change From Prior Year |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | 2009 | 2008 |  |  |
| Salaries and employee benefits | \$ | 181,368 |  |  | \$ | 167,764 | \$ | 163,722 | 8.1\% | 2.5\% |
| Occupancy |  | 47,064 |  | 39,668 |  | 26,466 | 18.6 | 49.9 |
| Equipment |  | 10,440 |  | 9,464 |  | 11,109 | 10.3 | (14.8) |
| Marketing |  | 9,578 |  | 9,554 |  | 8,407 | 0.3 | 13.6 |
| Data processing |  | 20,700 |  | 19,021 |  | 19,212 | 8.8 | (1.0) |
| Communications |  | 10,922 |  | 9,267 |  | 9,334 | 17.9 | (0.7) |
| Professional fees |  | 9,491 |  | 7,187 |  | 7,705 | 32.0 | (6.7) |
| Loan expense |  | 4,335 |  | 6,619 |  | 5,965 | (34.5) | 11.0 |
| Supplies |  | 4,294 |  | 3,283 |  | 3,495 | 30.8 | (6.1) |
| Fraud loss |  | 184 |  | 6,406 |  | 90 | (97.1) | N/M |
| FDIC assessment |  | 12,447 |  | 1,513 |  | 875 | N/M | 72.9 |
| Amortization of intangibles |  | 5,988 |  | 3,659 |  | 3,496 | 63.7 | 4.7 |
| Other expense |  | 22,145 |  | 13,824 |  | 18,122 | 60.2 | (23.7) |
| Total noninterest expense | \$ | 338,956 | \$ | 297,229 | \$ | 277,998 | 14.0\% | 6.9\% |

## N/M = Not meaningful

## Provision for Income Taxes

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The effective tax rate varied significantly from 2008 to 2009 due to large fluctuations in pre-tax income while the other items affecting the rate, in particular tax-exempt income, remained relatively stable. See Note 11 to the consolidated financial statements for additional details on Old National s income tax provision.

## Comparison of Fiscal Years 2008 and 2007

In 2008, we generated net income available to common stockholders of $\$ 62.2$ million and diluted net income per share of $\$ 0.95$ compared to $\$ 74.9$ million and $\$ 1.14$, respectively in 2007. The 2008 earnings included a $\$ 24.1$ million increase in net interest income, a $\$ 10.6$ million increase in net securities gains and an $\$ 18.2$ million decrease in income tax expense, which were more than offset by a $\$ 47.3$ million increase in the provision for loan losses and a $\$ 19.3$ million increase in noninterest expense. Other factors which positively affected 2008 net income included a $\$ 2.8$ million increase in ATM and debit card fees and a $\$ 1.7$ million increase in other income. Offsetting these increases to net income in 2008 was a $\$ 1.3$ million decrease in gains on derivatives.
Taxable equivalent net interest income was $\$ 262.7$ million in 2008 , an $11.1 \%$ increase from the $\$ 236.4$ million reported in 2007. The net interest margin was $3.82 \%$ for 2008, a 54 basis point increase compared to $3.28 \%$ reported for 2007. Although average earning assets declined by $\$ 338.3$ million during 2008 and the yield on average earning assets decreased 64 basis points from $6.63 \%$ to $5.59 \%$, the decrease was more than offset by the 128 basis point decrease in the cost of interest bearing liabilities and the $\$ 457.9$ million decline in average interest-bearing liabilities. The cost of interest-bearing liabilities decreased from $3.80 \%$ to $2.52 \%$.
The provision for loan losses was $\$ 51.5$ million in 2008, a $\$ 47.3$ million increase from the $\$ 4.1$ million recorded in 2007. The higher provision in 2008 was primarily attributable to the increase in nonaccrual loans in the first quarter of 2008 associated with the misconduct of a former loan officer in the Indianapolis market and subsequent deterioration

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of these credits combined with an increase in classified and criticized loans in the latter part of 2008.
Noninterest income for 2008 was $\$ 167.0$ million, an increase of $\$ 11.8$ million, or $7.6 \%$ from the $\$ 155.1$ million reported for 2007. Net securities gains were $\$ 7.6$ million during 2008 compared to $\$ 3.0$ million of losses for 2007.

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The 2008 net securities gains were primarily the result of securities which were called by the issuers. In addition, ATM and debit card fees were $\$ 2.8$ million higher and other income was $\$ 1.7$ million higher in 2008 than 2007. Partially offsetting these increases were a $\$ 1.3$ million decrease in wealth management fees, a $\$ 1.3$ million decrease in gains on derivatives and a $\$ 1.2$ million decrease in investment product fees.
Noninterest expense for 2008 totaled $\$ 297.2$ million, an increase of $\$ 19.2$ million, or $6.9 \%$ from the $\$ 278.0$ million recorded in 2007. This increase was primarily related to a $\$ 13.2$ million increase in occupancy expense combined with a $\$ 6.3$ million increase in fraud loss.
The provision for income taxes on continuing operations was a benefit of $\$ 0.9$ million in 2008 compared to an expense of $\$ 17.3$ million in 2007. Old National s effective tax rate was (1.4)\% in 2007 compared to $18.8 \%$ in 2007. The main factors for the decrease in the effective tax rate for 2008 was a higher percentage of tax-exempt income to income before income taxes in 2008 than in 2007 and a decrease in the unrecognized tax benefit liability.

## BUSINESS LINE RESULTS

We operate in two operating segments: community banking and treasury. The following table summarizes our business line results for the years ended December 31.

## BUSINESS LINE RESULTS

(dollars in thousands)
Community banking
Treasury
Other
Income (loss) before income taxes

| 2009 |  | 2008 |  | 2007 |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | 48,003 | \$ | 64,894 | \$ | 104,467 |
|  | $(50,072)$ |  | $(2,357)$ |  | $(12,113)$ |
|  | $(5,308)$ |  | (936) |  | (141) |
| \$ | $(7,377)$ | \$ | 61,601 | \$ | 92,213 |

The 2009 community banking segment profit decreased $\$ 16.9$ million, primarily as a result of an increase in provision for loan loss expense, higher FDIC assessment expense and costs associated with our acquisition of the 65 branches from Citizens Financial Group in the first quarter of 2009. The 2008 community banking segment profit decreased $\$ 39.6$ million from 2007, primarily as a result of an increase in provision for loan loss expense.
The 2009 treasury segment profit decreased $\$ 47.7$ million primarily as a result of $\$ 24.8$ million of other-than-temporary-impairment on six pooled trust preferred securities and ten non-agency mortgage-backed securities. The treasury segment also absorbed part of the increase in the FDIC assessment expense. The 2008 treasury segment profit increased $\$ 9.8$ million from 2007 primarily as a result of a $\$ 10.6$ million increase in net securities gains. The 2008 net securities gains were primarily the result of securities which were called by the issuers. The 2009 other segment profit decreased approximately $\$ 4.4$ million primarily as a result of lower wealth management revenue and insurance premiums and commissions. The 2008 other segment profit decreased approximately $\$ 0.8$ million from 2007 primarily as a result of lower wealth management revenue.

## FINANCIAL CONDITION

## Overview

At December 31, 2009, our total assets were $\$ 8.005$ billion, a $1.7 \%$ increase from $\$ 7.874$ billion at December 31, 2008. 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 $\$ 195.7$ million, net of issuance costs, from a public offering of common stock. Earning assets, comprised of investment securities, loans and loans and leases held for sale, and money market investments, were $\$ 6.862$ billion at December 31, 2009, a decrease of $\$ 211.2$ million, or $3.0 \%$, from $\$ 7.073$ billion at December 31, 2008. The decrease in earnings assets is primarily a result of a decline in loans and the sale of the $\$ 258.0$ million of finance leases. Year over year, noninterest-bearing demand deposits have increased while short-term borrowings and borrowed funds have decreased.

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## Investment Securities

We classify investment securities primarily as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we also have $\$ 165.6$ 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 and agency security securities were added to our held-to-maturity investment portfolio. At December 31, 2009, the investment securities portfolio was $\$ 2.918$ billion compared to $\$ 2.266$ billion at December 31, 2008, an increase of $28.8 \%$. Investment securities represented $42.5 \%$ of earning assets at December 31, 2009, compared to $32.0 \%$ at December 31, 2008. Contributing to the increase in investment securities were weak loan demand, strong deposit growth, cash proceeds from the Citizens Financial branch acquisition and the sale of certain finance leases, and our public offering of common stock. During 2009, approximately $\$ 2.373$ billion of investment securities were purchased, $\$ 1.042$ billion of investment securities were sold and $\$ 353.8$ million of investment securities were called by their issuers. Stronger commercial loan demand in the future and management sefforts to deleverage the balance sheet could result in a reduction in the investment securities portfolio. As of December 31, 2009, management does not intend to sell any securities with an unrealized loss position.
Investment securities available-for-sale portfolio had net unrealized losses of $\$ 13.0$ million at December 31, 2009, compared to net unrealized losses of $\$ 64.6$ million at December 31, 2008. A $\$ 24.8$ million charge was recorded during 2009 related to other-than-temporary-impairment on six pooled trust preferred securities and ten 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 crises affecting the banking system and financial markets. See Note 1 to the consolidated financial statements for the impact of other-than-temporary-impairment in other comprehensive income and Note 3 to the consolidated financial statements for details on management $s$ evaluation of securities for other-than-temporary-impairment.
The investment portfolio had an effective duration of $4.63 \%$ at December 31, 2009, compared to $3.87 \%$ at December 31, 2008. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. The weighted average yields on available-for-sale investment securities were $4.52 \%$ in 2009 and $5.42 \%$ in 2008. The average yields on the held-to-maturity portfolio were $3.78 \%$ in 2009 and $4.50 \%$ in 2008. At December 31, 2009, Old National had a concentration of investment securities issued by the state of Indiana and its political subdivisions with the following aggregate market value: $\$ 169.6$ million, which represented $20.1 \%$ of shareholders equity. At December 31, 2008, Old National had a concentration of investment securities issued by certain states and their political subdivisions with the following aggregate market values: $\$ 183.3$ million by Indiana, which represented $25.1 \%$ of shareholders equity, and $\$ 82.3$ million by Texas, which represented $11.3 \%$ of shareholders equity. There were no other concentrations of investment securities issued by an individual state and its political subdivisions that were greater than $10 \%$ of shareholders equity. In 2010 we plan to continue to allow our holdings of non-taxable municipal bonds to decrease and replace them with taxable municipal bonds.

## Loan Portfolio

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. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Illinois and Kentucky.

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The following table presents the composition of the loan portfolio at December 31.
LOAN PORTFOLIO AT YEAR-END
$\left.\begin{array}{lcccccc} & & & & & \begin{array}{c}\text { Four-Year } \\ \text { Growth }\end{array} \\ \text { Rate }\end{array}\right)$

## Commercial and Commercial Real Estate Loans

At December 31, 2009, commercial loans decreased $\$ 610.8$ million while commercial real estate loans decreased $\$ 92.0$ million, respectively, from December 31, 2008. A portion of the decrease relates to the $\$ 370.2$ million of finance leases which were moved to held for sale status during 2009, of which $\$ 258.0$ million of these leases were sold in the third quarter of 2009. We sold $\$ 2.6$ million of commercial and commercial real estate loans during 2009. A write-down of $\$ 0.6$ million was recorded against the allowance for loan losses related to the sale. During 2008, we sold $\$ 2.2$ million of commercial loans. No write-down was recorded against the allowance for loan losses related to these sales. 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.
The following table presents the maturity distribution and rate sensitivity of commercial loans and an analysis of these loans that have predetermined and floating interest rates. A significant percentage of commercial loans are due within one year, reflecting the short-term nature of a large portion of these loans.

## DISTRIBUTION OF COMMERCIAL LOAN MATURITIES AT DECEMBER 31, 2009

| (dollars in thousands) | Within 1 Year |  | $\begin{gathered} 1-5 \\ \text { Years } \end{gathered}$ |  | Beyond <br> 5 Years |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Interest rates: |  |  |  |  |  |  |  |  |
| Predetermined | \$ | 294,504 | \$ | 205,459 | \$ | 67,067 | \$ | 567,030 |
| Floating |  | 423,852 |  | 220,330 |  | 75,957 |  | 720,139 |
| Total | \$ | 718,356 | \$ | 425,789 | \$ | 143,024 |  | ,287,169 |

## Consumer Loans

Consumer loans, including automobile loans, personal and home equity loans and lines of credit, and student loans, decreased $\$ 128.9$ million or $10.6 \%$ at December 31, 2009, compared to December 31, 2008.
Residential Real Estate Loans

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Residential real estate loans, primarily 1-4 family properties, were $\$ 403.4$ million at December 31, 2009, a decrease of $\$ 93.1$ million or $18.8 \%$ from December 31, 2008. We sell the majority of residential real estate loans originated into the secondary market, primarily to private investors, as a strategy to better manage interest rate risk and liquidity. We sell almost all residential real estate loans servicing released without recourse.
Allowance for Loan Losses
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. Additional information about our Allowance for Loan Losses is included in the Risk Management Credit Risk section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 1 to the consolidated financial statements.

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At December 31, 2009, the allowance for loan losses was $\$ 69.5$ million, an increase of $\$ 2.4$ million compared to $\$ 67.1$ million at December 31, 2008. As a percentage of total loans, the allowance increased to $1.81 \%$ at December 31, 2009, from $1.41 \%$ at December 31, 2008. During 2009, the provision for loan losses was $\$ 63.3$ million, an increase of $\$ 11.8$ million from the $\$ 51.5$ million recorded in 2008. The higher provision in 2009 is attributable to an increase in net charge-offs. Included in 2009 net charge-offs is a $\$ 3.1$ million insurance recovery associated with the misconduct of a former loan officer in the Indianapolis market.
For commercial and commercial real estate loans, the reserve increased by $\$ 1.2$ million at December 31, 2009, compared to December 31, 2008. The reserve as a percentage of the commercial and commercial real estate loan portfolio increased to $2.30 \%$ at December 31, 2009, from $1.73 \%$ at December 31, 2008. Nonaccrual loans increased $\$ 3.0$ million since December 31, 2008. Criticized and classified loans decreased $\$ 44.4$ million from December 31, 2008. During 2009, other classified assets, which consist of investment securities downgraded below investment grade, increased $\$ 126.6$ million.
The reserve for residential real estate loans as a percentage of that portfolio increased to $0.42 \%$ at December 31, 2009, from $0.37 \%$ at December 31, 2008. The reserve for consumer loans increased to $1.28 \%$ at December 31, 2009, from $1.03 \%$ at December 31, 2008. The higher reserve percentages for these portfolios are a result of the continuing economic recession.

## Allowance for Losses on Unfunded Commitments

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. This allowance is reported as a liability on the balance sheet within accrued expenses and other liabilities, while the corresponding provision for these loan losses is recorded as a component of other expense. As of December 31, 2009 and 2008, the allowance for losses on unfunded commitments was $\$ 5.5$ million and $\$ 3.5$ million, respectively.

## Residential Loans Held for Sale

Residential loans held for sale were $\$ 17.5$ million at December 31, 2009, compared to $\$ 17.2$ 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, Financial Instruments (SFAS No. 159) prospectively for residential loans held for sale. The election was effective for loans originated since January 1, 2008. The aggregate fair value exceeded the unpaid principal balances by $\$ 0.3$ million and $\$ 0.6$ million as of December 31, 2009 and 2008, respectively.

## Finance Leases Held for Sale

At December 31, 2009, Old National had finance leases held for sale of $\$ 55.3$ 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 at September 30, 2009. After scheduled principal payments and prepayments, $\$ 55.3$ million of finance leases remained available for sale at December 31, 2009. The leases held for sale at December 31, 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.

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## Goodwill and Other Intangible Assets

Goodwill and other intangible assets at December 31, 2009, totaled $\$ 200.2$ million, an increase of $\$ 13.4$ million compared to $\$ 186.8$ million at December 31, 2008. During the first quarter of 2009, 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. We recorded $\$ 0.5$ million and $\$ 0.7$ million of impairment of intangibles during the years ended December 31, 2009 and 2008, respectively, due to the loss of two unrelated insurance clients at one of our insurance subsidiaries. The remaining decreases were the result of standard amortization expense related to the other intangible assets.

## Other Assets

Other assets have increased $\$ 23.4$ million, or $11.6 \%$, since December 31, 2008 primarily as a result of an increase in prepaid FDIC assessment expense. In the fourth quarter of 2009, the FDIC announced that it would require insured institutions to prepay their estimated 2010, 2011 and 2012 assessments in the current year. As of December 31, 2009, our prepaid assessment was $\$ 30.8$ million and will be expensed over the next three years as the actual FDIC assessments are determined.

## Funding

Total average funding, comprised of deposits and wholesale borrowings, was $\$ 7.037$ billion at December 31, 2009, an increase of $4.2 \%$ from $\$ 6.752$ billion at December 31, 2008. Total deposits were $\$ 5.903$ billion, including $\$ 3.896$ billion in transaction accounts and $\$ 2.007$ billion in time deposits at December 31, 2009. Total deposits increased $8.9 \%$ or $\$ 481.2$ million compared to December 31, 2008. Included in total deposits at December 31, 2009 is $\$ 325.3$ million from the acquisition of the Indiana retail branch banking network of Citizens Financial Group. In 2009, we called $\$ 81.0$ million of high cost brokered certificates of deposit and $\$ 70.0$ million of retail certificates of deposit. Noninterest-bearing demand deposits increased $33.7 \%$ or $\$ 300.0$ million compared to December 31, 2008. Savings deposits increased $11.2 \%$ or $\$ 97.6$ million and NOW deposits increased $4.8 \%$ or $\$ 61.8$ million compared to December 31, 2008. Money market deposits decreased $9.4 \%$, or $\$ 39.7$ million, while time deposits increased $3.2 \%$ or $\$ 61.8$ million compared to December 31, 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, Financial Instruments (SFAS No. 159) prospectively for certain retail certificates of deposit. The carrying value of these retail certificates of deposit was $\$ 0$ and $\$ 49.3$ million as of December 31, 2009 and 2008, respectively. The carrying value at December 31, 2008 was comprised of a contractual balance of $\$ 48.5$ million and $\$ 0.8$ million of fair value adjustments. We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. Wholesale borrowing as a percentage of total funding was $14.9 \%$ at December 31, 2009, compared to $21.5 \%$ at December 31, 2008. Short-term borrowings have decreased $\$ 318.5$ million since December 31, 2008 while long-term borrowings have decreased $\$ 135.8$ million compared to December 31, 2008. The public offering of common stock, the increase in deposit funding, funds received in the Citizens Financial branch acquisition and proceeds from our finance lease sale have all contributed to less reliance on wholesale funding. During 2009, $\$ 130.0$ million of FHLB advances were prepaid. See Notes 9 and 10 to the consolidated financial statements for additional details on our financing activities.

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The following table presents changes in the average balances of all funding sources for the years ended December 31 . FUNDING SOURCES AVERAGE BALANCES

| (dollars in thousands) | 2009 | 2008 | 2007 | \% Change From Prior Year |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | 2009 | 2008 |
| Demand deposits | \$ 1,018,405 | \$ 834,981 | \$ 828,461 | 22.0\% | 0.8\% |
| NOW deposits | 1,250,745 | 1,249,482 | 1,490,413 | 0.1 | (16.2) |
| Savings deposits | 937,642 | 886,351 | 622,398 | 5.8 | 42.4 |
| Money market deposits | 436,507 | 487,514 | 758,558 | (10.5) | (35.7) |
| Time deposits | 2,054,740 | 1,867,103 | 2,426,346 | 10.0 | (23.0) |
| Total deposits | 5,698,039 | 5,325,431 | 6,126,176 | 7.0 | (13.1) |
| Short-term borrowings | 527,147 | 616,935 | 461,780 | (14.6) | 33.6 |
| Other borrowings | 812,062 | 810,052 | 615,878 | 0.2 | 31.5 |
| Total funding sources | \$ 7,037,248 | \$ 6,752,418 | \$ 7,203,834 | 4.2\% | (6.3)\% |

The following table presents a maturity distribution for certificates of deposit with denominations of $\$ 100,000$ or more at December 31.

## CERTIFICATES OF DEPOSIT, $\$ 100,000$ AND OVER

(dollars in thousands)
2009
2008
2007

| Year-End |  | $\mathbf{1 - 9 0}$ |  |
| :---: | :---: | :---: | :---: |
| Balance |  | Days |  |
| $\$$ | $\mathbf{6 5 3 , 3 4 5}$ | $\$$ | $\mathbf{1 2 8 , 1 7 1}$ |
|  | 550,018 |  | 117,256 |
|  | 562,077 |  | 218,620 |


| Maturity Distribution |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 91-180 |  | 181-365 |  | Beyond |  |
|  | Days |  | Days |  | 1 Year |
| \$ | 54,361 | \$ | 168,622 | \$ | 302,191 |
|  | 41,825 |  | 189,755 |  | 201,182 |
|  | 91,728 |  | 149,238 |  | 102,491 |

## Capital

Shareholders equity totaled $\$ 843.8$ million or $10.5 \%$ of total assets at December 31,2009 , and $\$ 730.9$ million or $9.3 \%$ of total assets at December 31, 2008. The December 31, 2009 balance includes approximately $\$ 195.7$ million, net of issuance costs, 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 Series T Preferred Stock (as defined below) and Warrants (as defined below) issued to the Treasury Department as part of the CPP for healthy financial institutions. As part of the 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 Series T 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. All of the Series T Preferred Stock sold to the Treasury was repurchased by Old National on March 31, 2009.
The Warrants had a 10-year term and were immediately exercisable upon issuance. The Warrants were repurchased by Old National on May 11, 2009, for $\$ 1.2$ million. As a result of this Warrant repurchase, the Treasury Department does not own any securities of Old National issued under the CPP.
We paid cash dividends of $\$ 0.44$ per share in 2009 , which decreased equity by $\$ 30.4$ million. We also accrued dividends on the preferred shares for the three months ended March 31, 2009, which reduced equity by $\$ 1.2$ million.

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We declared cash dividends on common stock of $\$ 0.69$ per share in 2008, which decreased equity by $\$ 45.7$ million. We repurchased shares of our stock, reducing shareholders equity by $\$ 0.4$ million in 2009 and $\$ 0.5$ million in 2008. The repurchases related to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by $\$ 33.6$ million in 2009 and decreased equity by $\$ 36.8$ million in 2008. Shares issued for reinvested dividends, stock options, restricted stock and stock compensation plans increased shareholders equity by $\$ 3.5$ million in 2009, compared to $\$ 4.2$ million in 2008.

## Capital Adequacy

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. For additional information on capital adequacy see Note 20 to the consolidated financial statements.

## 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 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 December 31, 2009, we had non-agency collateralized mortgage obligations with a market value of $\$ 174.6$ million, or approximately $7.0 \%$ of the available-for-sale securities portfolio. The unrealized loss on these securities at December 31, 2009, was approximately $\$ 41.6$ 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. Ten of these securities were rated below investment grade as of December 31, 2009 and during 2009 we experienced $\$ 39.4$ million of other-than-temporary-impairment, of which $\$ 4.4$ million was recorded as a credit loss in earnings and $\$ 35.0$ million is included in other comprehensive income. 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 December 31, 2009, we had pooled trust preferred securities with a fair value of approximately $\$ 12.4$ million, or $0.5 \%$ of the available-for-sale securities portfolio. During 2009, we experienced $\$ 28.7$ million of other-than-temporary-impairment, of which $\$ 20.4$ million was recorded as a credit loss in earnings for six of these securities and $\$ 8.3$ million is included in other comprehensive income. These securities remained classified as available-for-sale and at December 31, 2009; the unrealized loss on our pooled trust preferred securities was approximately $\$ 16.1$ 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.

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## 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 $\$ 175.9$ million at December 31, 2009.
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 December 31, 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.

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Summary of under-performing, criticized and classified assets:
ASSET QUALITY

| (dollars in thousands) | 2009 | 2008 | 2007 | 2006 | 2005 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Nonaccrual loans |  |  |  |  |  |
| Commercial and commercial real estate | \$ 49,111 | \$ 52,394 | \$ 30,303 | \$ 32,307 | \$ 39,828 |
| Residential real estate | 9,621 | 5,474 | 5,996 | 5,686 | 5,818 |
| Consumer | 8,284 | 6,173 | 4,517 | 3,525 | 9,943 |
| Total nonaccrual loans | 67,016 | 64,041 | 40,816 | 41,518 | 55,589 |
| Renegotiated loans not on nonaccrual |  |  |  | 52 |  |
| Past due loans still accruing ( 90 days or more): |  |  |  |  |  |
| Commercial and commercial real estate | 1,826 | 991 | 738 | 1,227 | 183 |
| Residential real estate |  |  |  | 127 | 479 |
| Consumer | 1,675 | 1,917 | 773 | 787 | 1,173 |
| Total past due loans | 3,501 | 2,908 | 1,511 | 2,141 | 1,835 |
| Foreclosed properties | 8,149 | 2,934 | 2,876 | 3,313 | 3,605 |
| Total under-performing assets | \$ 78,666 | \$ 69,883 | \$ 45,203 | \$ 47,024 | \$ 61,029 |
| Classified loans (includes nonaccrual, renegotiated, past due 90 days and other |  |  |  |  |  |
| Other classified assets (3) | 161,160 | 34,543 |  |  |  |
| Criticized loans | 103,512 | 124,855 | 103,210 | 119,757 | 83,213 |
| Total criticized and classified assets | \$ 421,735 | \$339,516 | \$ 218,331 | \$ 272,972 | \$ 219,810 |
| Asset Quality Ratios: |  |  |  |  |  |
| Non-performing loans/total loans (1) (2) | 1.71\% | 1.34\% | 0.87\% | 0.88\% | 1.13\% |
| Under-performing assets/total loans and foreclosed properties (1) | 2.01 | 1.46 | 0.96 | 1.00 | 1.24 |
| Under-performing assets/total assets | 0.98 | 0.89 | 0.58 | 0.58 | 0.72 |
| Allowance for loan losses/ under-performing assets | 88.41 | 96.00 | 124.91 | 144.16 | 129.20 |
| (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 preferrred securities, 10 non-agency mortgage-backed securities and 1 corporate security at December 31, 2009.

Under-performing assets are closely monitored by our management and consist of: 1) nonaccrual loans, where the ultimate collectibility of interest or principal is uncertain; 2 ) loans renegotiated in some manner, primarily to provide for a reduction or deferral of interest or principal payments because the borrower s financial condition deteriorated; 3) loans with principal or interest past due ninety (90) days or more; and 4) foreclosed properties.
Under-performing assets totaled $\$ 78.7$ million at December 31, 2009 and $\$ 69.9$ million at December 31, 2008. As a percent of total loans and foreclosed properties, under-performing assets at December 31 were $2.01 \%$ for 2009 and $1.46 \%$ for 2008. The nonaccrual category of under-performing loans was $\$ 67.0$ million at December 31, 2009, compared to $\$ 64.0$ million at December 31, 2008. At December 31, 2009, the allowance for loan losses to under-performing assets ratio stood at $88.41 \%$ compared to $96.00 \%$ at December 31, 2008.
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 December 31, 2009, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled $\$ 10.0$ 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.

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Classified loans, including nonaccrual, renegotiated, past due 90 days and other problem loans, were $\$ 157.1$ million at December 31, 2009, a decrease of $\$ 23.0$ million from $\$ 180.1$ million at December 31, 2008. Of this total, other problem loans, which are loans reviewed for the borrowers ability to comply with present repayment terms, totaled $\$ 86.5$ million at December 31, 2009, compared to $\$ 113.2$ million at December 31, 2008. Other classified assets include $\$ 161.2$ million of investment securities that fell below investment grade rating at December 31, 2009. Criticized loans, or special mention loans, were $\$ 103.5$ million at December 31, 2009, a decrease of $\$ 21.4$ million from $\$ 124.9$ million at December 31, 2008.
Management believes it has taken a prudent approach to the evaluation of under-performing, criticized and classified loans, and the loan portfolio in general both in acknowledging the portfolio s general condition and in establishing the allowance for loan losses.
Loan officers and credit underwriters jointly grade the larger commercial and commercial real estate loans in the portfolio periodically as determined by loan policy requirements or determined by specific guidelines based on loan characteristics as set by management and banking regulation. Periodically, these loan grades are reviewed independently by the loan review department. For impaired loans, an assessment is conducted as to whether there is likely loss in the event of default. If such a loss is determined to be likely, the loss is quantified and a specific reserve is assigned to the loan. For the balance of the commercial and commercial real estate loan portfolio, loan grade migration analysis coupled with historic loss experience within the respective grades is used to develop reserve requirement ranges. These reserve requirement ranges 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 reserves for consumer and residential real estate loans.

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The activity in our allowance for loan losses is as follows:
ALLOWANCE FOR LOAN LOSSES

| (dollars in thousands) | 2009 |  | 2008 |  | 2007 |  | 2006 |  | 2005 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance, January 1 | \$ | 67,087 | \$ | 56,463 | \$ | 67,790 | \$ | 78,847 | \$ | 85,749 |
| Loans charged-off: |  |  |  |  |  |  |  |  |  |  |
| Commercial and commercial real estate |  | 58,568 |  | 34,393 |  | 13,690 |  | 16,483 |  | 17,747 |
| Residential real estate |  | 1,315 |  | 1,442 |  | 1,613 |  | 765 |  | 1,975 |
| Consumer credit |  | 18,156 |  | 15,385 |  | 11,635 |  | 10,696 |  | 16,418 |
| Write-downs on loans transferred to held for sale |  | 572 |  |  |  | 5,337 |  | 2,770 |  | 5,348 |
| Total charge-offs |  | 78,611 |  | 51,220 |  | 32,275 |  | 30,714 |  | 41,488 |
| Recoveries on charged-off |  |  |  |  |  |  |  |  |  |  |
| Commercial and commercial real estate |  | 12,323 |  | 5,259 |  | 5,927 |  | 7,282 |  | 7,830 |
| Residential real estate |  | 135 |  | 272 |  | 138 |  | 61 |  | 81 |
| Consumer credit |  | 5,334 |  | 4,849 |  | 5,066 |  | 5,314 |  | 3,575 |
| Total recoveries |  | 17,792 |  | 10,380 |  | 11,131 |  | 12,657 |  | 11,486 |
| Net charge-offs |  | 60,819 |  | 40,840 |  | 21,144 |  | 18,057 |  | 30,002 |
| Provision charged to expense |  | 63,280 |  | 51,464 |  | 4,118 |  | 7,000 |  | 23,100 |
| Allowance of acquired bank |  |  |  |  |  | 5,699 |  |  |  |  |
| Balance, December 31 | \$ | 69,548 | \$ | 67,087 | \$ | 56,463 | \$ | 67,790 | \$ | 78,847 |
| Average loans for the year (1) |  | 426,844 |  | 703,146 | \$ | 814,870 | \$ | 823,140 |  | 14,660 |
| Asset Quality Ratios: |  |  |  |  |  |  |  |  |  |  |
| Allowance/year-end loans (2) |  | 1.81\% |  | 1.41\% |  | 1.20\% |  | 1.44\% |  | 1.61\% |
| Allowance/average loans (2) |  | 1.58 |  | 1.43 |  | 1.17 |  | 1.41 |  | 1.58 |
| Net charge-offs/average loans (3) |  | 1.37 |  | 0.87 |  | 0.44 |  | 0.37 |  | 0.60 |

(1) Loans include residential loans held for sale and leases held for sale.
(2) Loans exclude residential loans held for sale and leases held for sale.
(3) Net charge-offs
include
write-downs on
loans transferred
to held for sale.
The allowance for loan losses increased $\$ 2.4$ million from $\$ 67.1$ million at December 31,2008 to $\$ 69.5$ million at December 31, 2009. An increase of approximately $\$ 4.4$ million in general allocation related to credit deterioration in the commercial portfolio, offset by a decrease in specific loan allocations of approximately $\$ 2.0$ million in the commercial portfolio, were the primary reasons for the increase in the allowance from December 31, 2008 to December 31, 2009.
Management believes that it has appropriately identified and reserved for its loan losses at December 31, 2009. Management will continue its efforts to reduce the level of non-performing loans and may consider the possibility of additional sales of troubled and non-performing loans, which could result in additional write-downs to the allowance for loan losses.
Interest income of approximately $\$ 4.3$ million and $\$ 3.7$ million would have been recorded on nonaccrual and renegotiated loans outstanding at December 31, 2009 and 2008, respectively, if such loans had been accruing interest throughout the year in accordance with their original terms. The amount of interest income actually recorded on nonaccrual and renegotiated loans was $\$ 1.7$ million and $\$ 1.4$ million in 2009 and 2008, respectively. Approximately $\$ 27.0$ million of nonaccrual loans were less than thirty days delinquent at December 31, 2009. We had $\$ 10.0$ million of renegotiated loans which are included in nonaccrual loans at December 31, 2009 and no renegotiated loans at December 31, 2008.
Charge-offs, net of recoveries, excluding write-downs on loans transferred to held for sale totaled $\$ 60.2$ million in 2009 and $\$ 40.8$ million in 2008. Included in 2009 net charge-offs is a $\$ 3.1$ million insurance recovery associated with the misconduct of a former loan officer in the Indianapolis market. Included in 2008 is $\$ 18.8$ million of charge-offs, primarily in the real estate acquisition and development industry category, associated with the misconduct of a former loan officer in the Indianapolis market. There were no other industry segments representing a significant share of total net charge-offs. Additionally write-downs related to loan sales of $\$ 0.6$ million in 2009 were recognized from loans transferred to held for sale. Approximately $76 \%$ of net charge-offs have been concentrated in commercial and commercial real estate loans and $21 \%$ have been in consumer loans. The allowance to average loans, which ranged from $1.17 \%$ to $1.58 \%$ for the last five years, was $1.58 \%$ at December 31, 2009.

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The following table details the allowance for loan losses by loan category and the percent of loans in each category compared to total loans at December 31.

## ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES BY CATEGORY OF LOANS AND THE PERCENTAGE OF LOANS BY CATEGORY TO TOTAL LOANS



## 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.
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.

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Old National s Board of Directors, through its Funds Management Committee, monitors our interest rate risk. Policy guidelines, in addition to December 31, 2009 and 2008 results are as follows:

Net Interest Income 12 Month Policies

Interest Rate Change in Basis Points (bp)

|  | Down 300 | Down 200 | Down 100 | Up 100 | Up 200 | Up 300 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Green | -12.00\% | -6.50\% | -3.00\% | -3.00\% | -6.50\% | -12.00\% |
| Zone |  |  |  |  |  |  |
| Yellow | $-12.00 \%$ 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 $-15.00 \%$ |
| Zone |  |  |  |  |  |  |
| Red Zone | -15.00\% | -8.50\% | -4.00\% | -4.00\% | -8.50\% | -15.00\% |
| 12/31/2009 | NA | NA | NA | 1.02\% | 1.29\% | 1.25\% |
| 12/31/2008 | NA | NA | NA | 3.07\% | 4.84\% | 5.86\% |
|  | Net Interest Income |  |  |  |  |  |
|  | Interest Rate Change in Basis Points (bp) |  |  |  |  |  |
|  | Down 300 | Down 200 | Down 100 | Up 100 | Up 200 | Up 300 |
| Green | -12.00\% | -6.50\% | -3.00\% | -3.00\% | -6.50\% | -12.00\% |
| Zone |  |  |  |  |  |  |
| Yellow | $-12.00 \%$ 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 $-15.00 \%$ |
| Zone |  |  |  |  |  |  |
| Red Zone | -15.00\% | -8.50\% | -4.00\% | -4.00\% | -8.50\% | -15.00\% |
| 12/31/2009 | NA | NA | NA | 3.60\% | 3.99\% | 3.93\% |
| 12/31/2008 | NA | NA | NA | 4.10\% | 6.33\% | 7.67\% |

## Economic Value of Equity Policies

Interest Rate Change in Basis Points (bp)

| Down 300 | Down 200 | Down 100 | Up 100 | Up 200 | Up 300 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $-22.00 \%$ | $-12.00 \%$ | $-5.00 \%$ | $-5.00 \%$ | $-12.00 \%$ | $-22.00 \%$ |

$-22.00 \%$ 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 $-30.00 \%$
Lone

| ed Zone | $-30.00 \%$ | $-17.00 \%$ | $-7.50 \%$ | $-7.50 \%$ | $-17.00 \%$ | $-30.00 \%$ |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| $2 / 31 / 2009$ |  |  |  |  |  |  |
| $2 / 31 / 2008$ | NA | NA | NA | NA | $-3.08 \%$ | $-8.65 \%$ |
| $-13.42 \%$ |  |  |  |  |  |  |

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 December 31, 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. Positive results
indicate that net interest income increases relative to net interest income modeled using interest rates as of December 31, 2009.

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At December 31, 2009, modeling indicated that Old National was with in 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. Old National s Economic Value of Equity ( EVE ) scenarios indicated negative changes to economic value in rising interest rate scenarios at December 31, 2009 compared to positive changes to economic value in rising interest rate scenarios at December 31, 2008. These changes in EVE modeling results were primarily driven by Old National s increase in investments as a percent of interest earning assets and were partially offset by an increase in Old National s deposit base from December 31, 2008 to December 31, 2009. Also impacting EVE at December 31, 2008 was the issuance of 100,000 shares of Old National s Fixed Rate Cumulative Perpetual Preferred Stock, Series T to the Treasury as part of the CPP program. All of the Series T Preferred Stock sold to the Treasury was repurchased by Old National on March 31, 2009.
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 a 24 -month forward curve. The forward curve represents the market s expectations of future interest rates. As of December 31, 2009, Old National s 24 month cumulative Net Interest Income at Risk for the scenario resulted in a $4.01 \%$ increase in net interest income over an unchanged interest rate curve. In addition, Old National models a ramp scenario where current interest rates are increased 25 basis points each quarter over a 12 month timeframe. As of December 31, 2009, Old National s 24 month cumulative Net Interest Income at Risk for this scenario resulted in a $1.73 \%$ increase in net interest income over an unchanged interest rate curve.
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 $\$ 0.4$ million at December 31, 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 $\$ 232.1$ million from 2008. See Note 17 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. For both Old National and Old National Bank:

Standard and Poor shas issued unsolicited ratings with stable outlook as of November 16, 2009
Dominion Bond Rating Services has issued a stable outlook as of June 18, 2009
Fitch Rating Services changed their long-term outlook rating from negative to stable as of December 12, 2008

Moody s Investor Service changed outlook to negative as of October 13, 2008

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The senior debt ratings of Old National and Old National Bank at December 31, 2009, are shown in the following table.
SENIOR DEBT RATINGS

|  | Standard and <br> Poor <br> s |  |
| :--- | :--- | :--- |
|  | Long <br> term | Short <br> term |
| Old National | BBB | N/A |
| Bancorp <br> Old National Bank | BBB+ | A-2 |


| Moody's Investor |  |  |  |
| :---: | :---: | :---: | :---: |
| Long term | Short term | Long term | Short term |
| A2 | N/A | BBB | F2 |
| A1 | P-1 | BBB+ | F2 |


| Dominion Bond Rating |  |
| :---: | :---: |
| Svc. |  |
| Long | Short |
| term | term |
| BBB | R-2 |
| (high) | (high) |
| A (low) | R-1 (low) |

N/A = not applicable
As of December 31, 2009, Old National Bank had the capacity to borrow $\$ 790.2$ million from the Federal Reserve Bank s discount window. Old National Bank is also a member of the Federal Home Loan Bank ( FHLB ) of Indianapolis, which provides a source of funding through FHLB advances. Old National Bank 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 December 31, 2009, the Parent Company s other borrowings outstanding remained unchanged at $\$ 157.3$ 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 December 31, 2009. Old National raised approximately $\$ 195.7$ million, net of issuance costs, 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 CPP for healthy financial institutions during fourth quarter 2008. Under the program, Old National sold Series T Preferred Stock and Warrants valued at $\$ 100$ million to the Treasury Department. As of March 31, 2009, Old National repurchased all of the $\$ 100$ million of Series T Preferred Stock from the Treasury Department. The Warrants were repurchased on May 11, 2009, for $\$ 1.2$ million. As a result of these repurchases by Old National, the Treasury Department does not own any securities of Old National issued under the CPP.
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, Old National Bank had received regulatory approval to declare a dividend up to $\$ 76$ million in the first quarter of 2007. Old National used the cash obtained from the dividend to fund its purchase of St. Joseph Capital Corporation during the first quarter of 2007 and during the first quarter of 2009 received a $\$ 40$ million dividend to repurchase the $\$ 100$ million of non-voting preferred shares from the Treasury. As a result of these special dividends, Old National Bank requires approval of regulatory authority for the payment of dividends to Old National. Such approval was obtained for the payment of dividends during 2009 and currently.

## 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 $\$ 1.038$ billion and standby letters of credit of $\$ 103.2$ million at December 31, 2009. At December 31, 2009, approximately $\$ 992$ million of the loan commitments had fixed rates and $\$ 46$ 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.

The term of these off-balance sheet arrangements is typically one year or less.

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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 $\$ 9.2$ million at December 31, 2009.

## CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES

The following table presents our significant fixed and determinable contractual obligations and significant commitments at December 31, 2009. Further discussion of each obligation or commitment is included in the referenced note to the consolidated financial statements.
CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES


We rent certain premises and equipment under operating leases. See Note 18 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 17 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 18 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 11 to the consolidated financial statements.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies are contained in the section of this annual report captioned Notes to Consolidated Financial Statements-Summary of Significant Accounting Policies. Certain accounting policies require management to use significant judgments 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 judgments 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 judgments and assumptions, actual results could differ from 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.

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## 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.

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.

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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.

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 December 31, 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 $\$ 1.0$ 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 11 to the Consolidated Financial Statements for a further description of our provision and related income tax assets and liabilities.

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Judgments and Uncertainties. In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit.
Effect if Actual Results Differ From Assumptions. Although management believes that the judgments and estimates used are reasonable, actual results could differ and we may be exposed to losses or gains that could be material. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would result in a reduction in our effective income tax rate in the period of resolution.

## 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

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assumptions regarding the estimated prepayments, loss assumptions and interest cash flows.

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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.
Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the Company s disclosure relating to it in this Management s Discussion and Analysis .

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk on page 40 of this Form 10-K is incorporated herein by reference in response to this item.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA REPORT OF MANAGEMENT <br> MANAGEMENT S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the financial statements and related financial information appearing in this annual report on Form $10-\mathrm{K}$. The financial statements and notes have been prepared in conformity with accounting principles generally accepted in the United States of America and include some amounts which are estimates based upon currently available information and management s judgment of current conditions and circumstances. Financial information throughout this annual report on Form $10-\mathrm{K}$ is consistent with that in the financial statements.
Management maintains a system of internal accounting controls which is believed to provide, in all material respects, reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized and recorded, and the financial records are reliable for preparing financial statements and maintaining accountability for assets. In addition, Old National has a Code of Business Conduct and Ethics, a Senior Financial and Executive Officer Code of Ethics, Corporate Governance Guidelines that outline high levels of ethical business standards and had a third party perform an independent validation of the Company s ethics program. Old National has also appointed a Chief Ethics Officer. All systems of internal accounting controls are based on management s judgment that the cost of controls should not exceed the benefits to be achieved and that no system can provide absolute assurance that control objectives are achieved. Management believes Old National s system provides the appropriate balance between cost of controls and the related benefits.
In order to monitor compliance with this system of controls, Old National maintains an extensive internal audit program. Internal audit reports are issued to appropriate officers and significant audit exceptions, if any, are reviewed with management and the Audit Committee of the Board of Directors.
The Board of Directors, through an Audit Committee comprised solely of independent outside directors, oversees management s discharge of its financial reporting responsibilities. The Audit Committee meets regularly with Old National s independent registered public accounting firm, Crowe Horwath LLP, and the managers of internal audit and loan review. During these meetings, the committee has the opportunity to meet privately with the independent registered public accounting firm as well as with internal audit and loan review personnel to review accounting, auditing, loan and financial reporting matters. The appointment of the independent registered public accounting firm is made by the Audit Committee of the Board of Directors.

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The consolidated financial statements in this annual report on Form 10-K have been audited by Crowe Horwath LLP, for the purpose of determining that the consolidated financial statements are presented fairly, in all material respects in conformity with accounting principles generally accepted in the United States of America. Crowe Horwath LLP s report on the financial statements follows.

## MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Old National is responsible for establishing and maintaining adequate internal control over financial reporting. A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
Old National s management assessed the effectiveness of the company s internal control over financial reporting as of December 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on that assessment Old National has concluded that, as of December 31, 2009, the company s internal control over financial reporting is effective. Old National s independent registered public accounting firm has audited the effectiveness of the company s internal control over financial reporting as of December 31, 2009 as stated in their report which follows.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Old National Bancorp
Evansville, Indiana
We have audited the accompanying consolidated balance sheets of Old National Bancorp as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2009. We also have audited Old National Bancorp s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Old National Bancorp s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the company s internal control over financial reporting based on our audits.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.
A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company $s$ assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Old National Bancorp as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Old National Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the COSO.

Crowe Horwath LLP
Indianapolis, Indiana
February 26, 2010

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OLD NATIONAL BANCORP
CONSOLIDATED BALANCE SHEETS

| (dollars and shares in thousands, except per share data) | December 31, |  |
| :---: | :---: | :---: |
|  | 2009 | 2008 |
| Assets |  |  |
| Cash and due from banks | \$ 461,656 | \$ 162,893 |
| Money market investments and federal funds sold | 35,620 | 30,119 |
| Total cash and cash equivalents | 497,276 | 193,012 |
| Securities available-for-sale, at fair value | 2,486,219 | 2,125,026 |
| Securities held-to-maturity, at amortized cost (fair value \$399,953 and \$100,831 respectively) | 396,009 | 99,661 |
| Federal Home Loan Bank stock, at cost | 36,090 | 41,090 |
| Residential loans held for sale, at fair value | 17,530 | 17,155 |
| Finance leases held for sale | 55,260 |  |
| Loans, net of unearned income | 3,835,486 | 4,760,359 |
| Allowance for loan losses | $(69,548)$ | $(67,087)$ |
| Net loans | 3,765,938 | 4,693,272 |
| Premises and equipment, net | 52,399 | 44,625 |
| Accrued interest receivable | 49,340 | 49,030 |
| Goodwill | 167,884 | 159,198 |
| Other intangible assets | 32,307 | 27,628 |
| Company-owned life insurance | 224,652 | 223,126 |
| Other assets | 224,431 | 201,067 |
| Total assets | \$ 8,005,335 | \$ 7,873,890 |
| Liabilities |  |  |
| Deposits: |  |  |
| Noninterest-bearing demand | \$ 1,188,343 | \$ 888,578 |
| Interest-bearing: |  |  |
| NOW | 1,354,337 | 1,292,574 |
| Savings | 972,176 | 874,602 |
| Money market | 381,078 | 420,821 |
| Time (including \$0 and \$49,309 respectively, at fair value) | 2,007,554 | 1,945,712 |
| Total deposits | 5,903,488 | 5,422,287 |
| Short-term borrowings | 331,144 | 649,623 |
| Other borrowings | 699,059 | 834,867 |
| Accrued expenses and other liabilities | 227,818 | 236,248 |
| Total liabilities | 7,161,509 | 7,143,025 |

Commitments and contingencies (Note 18)

| Shareholders Equity |  |  |
| :---: | :---: | :---: |
| 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 and 100 shares issued and outstanding, respectively |  | 97,358 |
| Common stock, $\$ 1$ per share stated value, 150,000 shares authorized, 87,182 and 66,321 shares issued and outstanding, respectively | 87,182 | 66,321 |
| Capital surplus | 746,775 | 569,875 |
| Retained earnings | 30,235 | 50,815 |
| Accumulated other comprehensive loss, net of tax | $(20,366)$ | $(53,504)$ |
| Total shareholders equity | 843,826 | 730,865 |
| Total liabilities and shareholders equity | \$ 8,005,335 | \$ 7,873,890 |

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF INCOME

| (dollars and shares in thousands, except per share data) | Years Ended December 31, |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2009 |  | 2008 |  | 2007 |  |
| Interest Income |  |  |  |  |  |  |
| Loans including fees: |  |  |  |  |  |  |
| Taxable | \$ | 198,940 | \$ | 261,455 | \$ | 322,558 |
| Nontaxable |  | 19,053 |  | 23,155 |  | 21,735 |
| Investment securities, available-for-sale: |  |  |  |  |  |  |
| Taxable |  | 90,087 |  | 87,066 |  | 91,969 |
| Nontaxable |  | 22,532 |  | 14,913 |  | 12,192 |
| Investment securities, held-to-maturity, taxable |  | 9,932 |  | 5,187 |  | 6,649 |
| Money market investments and federal funds sold |  | 133 |  | 746 |  | 6,265 |
| Total interest income |  | 340,677 |  | 392,522 |  | 461,368 |
| Interest Expense |  |  |  |  |  |  |
| Deposits |  | 67,628 |  | 95,453 |  | 183,113 |
| Short-term borrowings |  | 1,410 |  | 10,902 |  | 18,193 |
| Other borrowings |  | 40,240 |  | 42,842 |  | 40,871 |
| Total interest expense |  | 109,278 |  | 149,197 |  | 242,177 |
| Net interest income |  | 231,399 |  | 243,325 |  | 219,191 |
| Provision for loan losses |  | 63,280 |  | 51,464 |  | 4,118 |
| Net interest income after provision for loan losses |  | 168,119 |  | 191,861 |  | 215,073 |
| Noninterest Income |  |  |  |  |  |  |
| Wealth management fees |  | 15,963 |  | 17,361 |  | 18,710 |
| Service charges on deposit accounts |  | 55,196 |  | 45,175 |  | 44,751 |
| ATM fees |  | 20,472 |  | 17,234 |  | 14,476 |
| Mortgage banking revenue |  | 6,238 |  | 5,100 |  | 4,439 |
| Insurance premiums and commissions |  | 37,851 |  | 39,153 |  | 38,996 |
| Investment product fees |  | 8,515 |  | 9,493 |  | 10,727 |
| Company-owned life insurance |  | 2,355 |  | 9,181 |  | 9,817 |
| Net securities gains (losses) |  | 27,251 |  | 7,562 |  | $(3,023)$ |
| Impairment on available-for-sale securities (includes loss of $\$ 68,090$, net of $\$ 43,295$ recognized in other comprehensive income, pre-tax) |  |  |  |  |  |  |
| Gain (loss) on derivatives |  | 719 |  | $(1,144)$ |  | 166 |
| Gain on sale leaseback transactions |  | 6,301 |  | 6,320 |  | 6,261 |
| Other income |  | 7,394 |  | 11,534 |  | 9,818 |
| Total noninterest income |  | 163,460 |  | 166,969 |  | 155,138 |
| Noninterest Expense |  |  |  |  |  |  |
| Salaries and employee benefits |  | 181,368 |  | 167,764 |  | 163,722 |

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| Occupancy |  | 47,064 |  | 39,668 |  | 26,466 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Equipment |  | 10,440 |  | 9,464 |  | 11,109 |
| Marketing |  | 9,578 |  | 9,554 |  | 8,407 |
| Data processing |  | 20,700 |  | 19,021 |  | 19,212 |
| Communication |  | 10,922 |  | 9,267 |  | 9,334 |
| Professional fees |  | 9,491 |  | 7,187 |  | 7,705 |
| Loan expense |  | 4,335 |  | 6,619 |  | 5,965 |
| Supplies |  | 4,294 |  | 3,283 |  | 3,495 |
| Fraud loss |  | 184 |  | 6,406 |  | 90 |
| FDIC assessment |  | 12,447 |  | 1,513 |  | 875 |
| Amortization of intangibles |  | 5,988 |  | 3,659 |  | 3,496 |
| Other expense |  | 22,145 |  | 13,824 |  | 18,122 |
| Total noninterest expense |  | 338,956 |  | 297,229 |  | 277,998 |
| Income (loss) before income taxes |  | $(7,377)$ |  | 61,601 |  | 92,213 |
| Income tax expense (benefit) |  | $(21,114)$ |  | (877) |  | 17,323 |
| Net income |  | 13,737 |  | 62,478 |  | 74,890 |
| Preferred stock dividends and discount accretion |  | $(3,892)$ |  | (298) |  |  |
| Net income available to common stockholders | \$ | 9,845 | \$ | 62,180 | \$ | 74,890 |
| Net income per common share: |  |  |  |  |  |  |
| Basic earnings per share | \$ | 0.14 | \$ | 0.95 | \$ | 1.14 |
| Diluted earnings per share |  | 0.14 |  | 0.95 |  | 1.14 |
| Weighted average number of common shares outstanding |  |  |  |  |  |  |
| Basic |  | 71,314 |  | 65,660 |  | 65,684 |
| Diluted |  | 71,367 |  | 65,776 |  | 65,750 |
| Dividends per common share |  | 0.44 |  | 0.69 |  | 1.11 |

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY


| Dividends common stock |  |  |  | $(45,710)$ |  | $(45,710)$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Dividends preferred stock |  |  |  | (273) |  | (273) |  |
| Issuance of preferred stock | 97,358 |  |  | (26) |  | 97,332 |  |
| Issuance of warrants to purchase common shares |  |  | 2,553 |  |  | 2,553 |  |
| Common stock repurchased |  | (26) | (431) |  |  | (457) |  |
| Stock based compensation expense |  |  | 2,005 |  |  | 2,005 |  |
| Stock activity under incentive comp plans |  | 142 | 2,073 |  |  | 2,215 |  |
| Balance, December 31, 2008 | 97,358 | 66,321 | 569,875 | $\mathbf{5 0 , 8 1 5}$ | $(53,504)$ | 730,865 |  |
| Comprehensive income |  |  |  |  |  |  |  |
| Net income |  |  |  | 13,737 |  | 13,737 | 13,737 |
| Other comprehensive income (1) |  |  |  |  |  |  |  |
| Change in unrealized gain (loss) on securities available for |  |  |  |  |  |  |  |
| sale, net of reclassification and tax |  |  |  |  | 32,792 | 32,792 | 32,792 |
| Transferred securities, net of tax |  |  |  |  | 812 | 812 | 812 |
| Reclassification adjustment on cash flow hedges, net of tax |  |  |  |  | 667 | 667 | 667 |
| Net loss, settlement cost and amort. of net (gain) loss on defined benefit pension plans, net of tax |  |  |  |  | $(1,133)$ | $(1,133)$ | $(1,133)$ |
| Total comprehensive income |  |  |  |  |  |  | 46,875 |
| Dividends common stock |  |  |  | $(30,380)$ |  | $(30,380)$ |  |
| Dividends preferred stock |  |  |  | $(1,250)$ |  | $(1,250)$ |  |
| Common stock issued |  | 20,900 | 176,856 |  |  | 197,756 |  |
| Preferred stock repurchased | $(97,358)$ |  |  | (2,642) |  | $(100,000)$ |  |
| Common stock repurchased |  | (28) | (325) |  |  | (353) |  |
| Warrants repurchased |  |  | $(1,200)$ |  |  | $(1,200)$ |  |
| Stock based compensation expense |  |  | 1,310 |  |  | 1,310 |  |
| Stock activity under incentive comp plans |  | (11) | 259 | (45) |  | 203 |  |
| Balance, December 31, 2009 | 0 | 87,182 | \$446,775 | 30,235 | $(20,366)$ | 843,826 |  |

The accompanying notes to consolidated financial statements are an integral part of these statements.
(1) See Note 1 to
the consolidated
financial
statements.

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
Cash Flows From Operating Activities

Net income

Adjustments to reconcile net income to cash provided by operating activities:

| Depreciation | 8,853 | 5,952 | 7,855 |
| :---: | :---: | :---: | :---: |
| Amortization and impairment of other intangible assets | 6,508 | 4,350 | 3,497 |
| Net premium (discount) amortization on investment securities | 2,188 | $(1,875)$ | $(2,511)$ |
| Restricted stock expense | 918 | 1,598 | 1,292 |
| Stock option expense | 392 | 407 | 298 |
| Provision for loan losses | 63,280 | 51,464 | 4,118 |
| Net securities (gains) losses | $(27,251)$ | $(7,562)$ | 3,023 |
| Impairment on available-for-sale securities | 24,795 |  |  |
| Gain on sale leasebacks | $(6,301)$ | $(6,320)$ | $(6,261)$ |
| (Gain) loss on derivatives | (719) | 1,144 | (166) |
| Net gains on sales and write-downs of loans and other assets | $(1,141)$ | $(3,054)$ | $(1,577)$ |
| (Gain) loss on retirement of debt | 3,941 | (558) | 1,541 |
| Increase in cash surrender value of company-owned life insurance | $(1,526)$ | $(8,640)$ | $(7,756)$ |
| Residential real estate loans originated for sale | $(259,664)$ | $(171,871)$ | $(238,460)$ |
| Proceeds from sale of residential real estate loans | 262,784 | 170,577 | 245,654 |
| (Increase) decrease in interest receivable | (278) | 1,247 | 5,290 |
| (Increase) decrease in other assets | $(44,008)$ | $(65,003)$ | 2,091 |
| Increase (decrease) in accrued expenses and other liabilities | $(6,212)$ | 20,185 | $(18,641)$ |
| Total adjustments | 26,559 | $(7,959)$ | (713) |
| Net cash flows provided by operating activities | 40,296 | 54,519 | 74,177 |
| Cash Flows From Investing Activities |  |  |  |
| Cash and cash equivalents of acquired banking branches, net | 389,917 |  | 17,429 |
| Purchase of subsidiaries |  |  | $(78,109)$ |
| Purchases of investment securities available-for-sale | $(2,274,090)$ | $(1,068,304)$ | $(811,266)$ |
| Purchases of investment securities held-to-maturity | $(98,544)$ |  |  |
| Purchase of loans | $(8,024)$ |  |  |
| Proceeds from maturities, prepayments and calls of investment securities available-for-sale | 697,082 | 754,669 | 739,443 |
| Proceeds from sales of investment securities available-for-sale | 1,042,138 | 280,971 | 205,362 |
| Proceeds from maturities, prepayments and calls of investment securities held-to-maturity | 29,230 | 26,464 | 34,495 |
| Proceeds from redemption of FHLB stock | 5,000 |  | 838 |
| Proceeds from sale of loans and leases | 259,127 | 2,251 | 15,581 |
| Net principal collected from (loans made to) customers | 562,452 | $(117,039)$ | 306,848 |
| Proceeds from sale of premises and equipment and other assets | 405 | 10,892 | 4,511 |
| Proceeds from sale leaseback of real estate | 10,836 | 8,528 | 182,192 |


| Purchases of premises and equipment |  | $(13,944)$ |  | $(11,722)$ |  | $(9,055)$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net cash flows provided by (used in) investing activities |  | 601,585 |  | $(113,290)$ |  | 608,269 |
| Cash Flows From Financing Activities |  |  |  |  |  |  |
| Net increase (decrease) in deposits and short-term borrowings: |  |  |  |  |  |  |
| Noninterest-bearing demand deposits |  | 220,070 |  | 33,130 |  | $(61,720)$ |
| Savings, NOW and money market deposits |  | $(61,390)$ |  | $(158,851)$ |  | $(325,713)$ |
| Time deposits |  | $(103,011)$ |  | $(113,904)$ |  | $(634,661)$ |
| Short-term borrowings |  | $(318,479)$ |  | 11,376 |  | 297,017 |
| Payments for maturities on other borrowings |  | $(5,264)$ |  | $(154,207)$ |  | $(14,159)$ |
| Proceeds from issuance of other borrowings |  |  |  | 330,000 |  | 74,000 |
| Payments related to retirement of debt |  | $(133,949)$ |  |  |  | $(189,790)$ |
| Cash dividends paid on common stock |  | $(30,380)$ |  | $(60,801)$ |  | $(57,782)$ |
| Cash dividends paid on preferred stock |  | $(1,514)$ |  |  |  |  |
| Common stock repurchased |  | (353) |  | (457) |  | $(4,102)$ |
| Proceeds from exercise of stock options, including tax benefit |  | 97 |  | 1,940 |  | 119 |
| Proceeds from issuance of TARP preferred stock and warrants |  |  |  | 99,885 |  |  |
| Repurchase of TARP preferred stock and warrants |  | $(101,200)$ |  |  |  |  |
| Common stock issued |  | 197,756 |  |  |  | 112 |
| Net cash flows used in financing activities |  | $(337,617)$ |  | $(11,889)$ |  | $(916,679)$ |
| Net increase (decrease) in cash and cash equivalents |  | 304,264 |  | $(70,660)$ |  | $(234,233)$ |
| Cash and cash equivalents at beginning of period |  | 193,012 |  | 263,672 |  | 497,905 |
| Cash and cash equivalents at end of period | \$ | 497,276 | \$ | 193,012 | \$ | 263,672 |

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

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## OLD NATIONAL BANCORP <br> NOTES TO CONSOLIDATED FINANCIAL STATEMENTS <br> NATURE OF OPERATIONS

Old National Bancorp, a financial holding company headquartered in Evansville, Indiana, operates primarily in Indiana, Illinois, and Kentucky. Its principal subsidiaries include Old National Bank, ONB Insurance Group, Inc., ONB Finance Inc. and American National Trust \& Investment Management Corp. Through its bank and non-bank affiliates, Old National Bancorp provides to its clients an array of financial services including loan, deposit, wealth management, investment consulting, investment and insurance products.

## NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES BASIS OF PRESENTATION

The accompanying 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, valuation and impairment of securities, goodwill and intangibles, derivative financial instruments, and income taxes 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 December 31, 2009 and 2008, and the results of its operations and cash flows for the years ended December 31, 2009, 2008 and 2007.
All significant intercompany transactions and balances have been eliminated. A summary of the more significant accounting and reporting policies used in preparing the statements is presented below.
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 ) became 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 February 26, 2010, the date the financial statements were issued.

## INVESTMENT SECURITIES

Old National classifies investment securities as available-for-sale or held-to-maturity on the date of purchase. Securities classified as available-for-sale are recorded at fair value with the unrealized gains and losses, net of tax effect, recorded in other comprehensive income. Realized gains and losses affect income and the prior fair value adjustments are reclassified within shareholders equity. Securities classified as held-to-maturity, which management has the intent and ability to hold to maturity, are reported at amortized cost. Premiums and discounts are amortized on the level-yield method. Anticipated prepayments are considered when amortizing premiums and discounts on mortgage backed securities. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

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Other-Than-Temporary- Impairment Management evaluates securities for other-than-temporary-impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (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 including an evaluation of credit ratings, (3) the impact of changes in market interest rates, (4) the intent of the Company to sell a security, and (5) whether it is more likely than not the Company will have to sell the security before recovery of its cost basis. If the Company intends to sell an impaired security, the Company records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost. If a security is determined to be other-than-temporarily-impaired, but the Company does not intend to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income. See Note 3 to the consolidated financial statements for a detailed description of the quarterly evaluation process.

## FEDERAL HOME LOAN BANK (FHLB) STOCK

Old National is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

## RESIDENTIAL LOANS HELD FOR SALE

Residential loans that Old National has committed to sell are classified as loans held for sale and are recorded in accordance with FASB ASC 825-10 (SFAS No. 159) at fair value, determined individually, as of the balance sheet date. The loans fair value includes the servicing value of the loans as well as any accrued interest.

## LOANS

Loans that Old National intends to hold for investment purposes are classified as portfolio loans. Portfolio loans are carried at the principal balance outstanding, net of earned interest, purchase premiums or discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the principal balances of loans outstanding. A loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. Interest accrued during the current year on such loans is reversed against earnings. Interest accrued in the prior year, if any, is charged to the allowance for loan losses. Cash interest received on these loans is applied to the principal balance until the principal is recovered or until the loan returns to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for six months and future payments are reasonably assured.

## ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses incurred in the 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 economic conditions on the portfolio, and historical loss experience. The allowance is increased through a provision charged to operating expense. Loans deemed to be uncollectible are charged to the allowance. Recoveries of loans previously charged-off are added to the allowance.
A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated cash flows using the loan $s$ existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Old National s policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status.

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It is Old National s policy to charge off small commercial loans scored through our small business credit center with contractual balances under $\$ 250,000$ that have been placed on nonaccrual status or became ninety days or more delinquent, without regard to the collateral position.

## PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Land is stated at cost. Depreciation is charged to operating expense over the useful lives of the assets, principally on the straight-line method. Useful lives for premises and equipment are as follows: buildings and building improvements 15 to 39 years; and furniture and equipment 3 to 10 years. Leasehold improvements are depreciated over the lesser of their useful lives or the term of the lease. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Interest costs on construction of qualifying assets are capitalized.
Premises and equipment are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are adjusted to fair value. Old National recorded impairment of $\$ 1.2$ million for the year ended December 31, 2007. Such impairments are included in other expense.

## GOODWILL AND OTHER INTANGIBLE ASSETS

The excess of the cost of acquired entities over the fair value of identifiable assets acquired less liabilities assumed is recorded as goodwill. In accordance with FASB ASC 350 (SFAS No. 142, Goodwill and Other Intangible Assets), amortization on goodwill and indefinite-lived assets is not recorded. However, the recoverability of goodwill and other intangible assets are annually tested for impairment. Other intangible assets, including core deposits and customer business relationships, are amortized primarily on an accelerated cash flow basis over their estimated useful lives, generally over a period of 7 to 25 years.
Old National recorded $\$ 0.5$ million and $\$ 0.7$ million of impairment of intangibles during the years ended
December 31, 2009 and 2008, respectively, due to the loss of two unrelated insurance clients at one of its insurance subsidiaries. Such impairments are included in other expense.

## COMPANY OWNED LIFE INSURANCE

Old National has purchased life insurance policies on certain key executives. The Company adopted FASB ASC 325-30, Investments in Insurance Contracts (EITF 06-05, Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4) on January 1, 2007, and in accordance with this pronouncement records company owned life insurance at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The amount of company owned life insurance at December 31, 2009 and 2008 was $\$ 224.7$ million and $\$ 223.1$ million, respectively.

## 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. All derivative instruments are recognized on the balance sheet at their fair value in accordance with FASB ASC 815 (SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities), as amended. At the inception of the derivative contract, the Company will designate the derivative as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ( fair value hedge ), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ( cash flow hedge ), or (3) an instrument with no hedging designation ( stand-alone derivative ). For derivatives that are designated and qualify as a fair value hedge, the change in value of the derivative, as well as the offsetting change in value of the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. As of December 31, 2009, Old National was not using the short-cut method of accounting for any fair value derivatives. For derivatives that are designated and qualify as a cash flow hedge, the effective portion of the change in value on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For all hedging relationships, changes in fair value of derivatives that are not effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings during the period of the change. Similarly, the changes in the fair value of derivatives that do not qualify for hedge accounting under FASB ASC 815
(SFAS No. 133) are also reported currently in earnings, in noninterest income.

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The accrued net settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, consistent with the item being hedged.
Old National formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair-value or cash-flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge $s$ inception and on an ongoing basis, whether the derivative instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The Company discontinues hedge accounting prospectively when it is determined that (1) the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item; (2) the derivative expires, is sold, or terminated; (3) the derivative instrument is dedesignated as a hedge because the forecasted transaction is no longer probable of occurring; (4) a hedged firm commitment no longer meets the definition of a firm commitment; (5) or management determines that designation of the derivative as a hedging instrument is no longer appropriate.
When hedge accounting is discontinued, the future changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transaction is still expected to occur, changes in value that were accumulated in other comprehensive income are amortized or accreted into earnings over the same periods which the hedged transactions will affect earnings.
Old National enters into various stand-alone mortgage-banking derivatives in order to hedge the risk associated with the fluctuation of interest rates. Old National also enters into various stand-alone derivative contracts to provide derivative products to customers which are carried at fair value with changes in fair value recorded as mortgage banking revenue.
Old National is exposed to losses if a counterparty fails to make its payments under a contract in which Old National is in the net receiving position. Old National anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. In addition, Old National obtains collateral above certain thresholds of the fair value of its hedges for each counterparty based upon their credit standing. All of the contracts to which Old National is a party settle monthly, quarterly or semiannually. Further, Old National has netting agreements with the dealers with which it does business.

## CREDIT-RELATED FINANCIAL INSTRUMENTS

In the ordinary course of business, Old National s affiliate bank has entered into credit-related financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. The notional amount of these commitments is not reflected in the consolidated financial statements until they are funded.

## FORECLOSED REAL ESTATE

Other assets include real estate properties acquired as a result of foreclosure and are initially recorded at the fair value of the property less estimated cost to sell. Any excess recorded investment over the fair value of the property received is charged to the allowance for loan losses. Any subsequent write-downs are charged to expense, as are the costs of operating the properties. Such costs are not material to Old National s results of operation. The amount of foreclosed properties at December 31, 2009 and 2008 was $\$ 8.1$ million and $\$ 2.9$ million, respectively.

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## SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company purchases certain securities, generally U.S. Government-sponsored entity and agency securities, under agreements to resell. The amounts advanced under these agreements represent short-term secured loans and are reflected as assets in the accompanying consolidated balance sheets. The Company also sells certain securities under agreements to repurchase. These agreements are treated as collateralized financing transactions. These secured borrowings are reflected as liabilities in the accompanying consolidated balance sheets and are recorded at the amount of cash received in connection with the transaction. Short-term securities sold under agreements to repurchase generally mature within one to four days from the transaction date. Securities, generally U.S. government and federal agency securities, pledged as collateral under these financing arrangements can be repledged by the secured party. Additional collateral may be required based on the fair value of the underlying securities.

## COMPREHENSIVE INCOME

Comprehensive income includes all changes in equity during a period, except those resulting from investments by and distributions to owners. Following is a summary of other comprehensive income for the years ended December 31, 2009, 2008 and 2007.
(dollars in thousands)
Net income
Other comprehensive income
Change in securities available for sale:
Unrealized holding gains (losses) arising during the period
Reclassification for securities transferred to held-to-maturity
Reclassification adjustment for securities (gains) losses realized in income
Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income
Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income
Income tax effect
Change in securities held-to-maturity:
Fair value adjustment for securities transferred from available-for-sale
Amortization of fair value previously recognized into accumulated other comprehensive income
Income tax effect
Cash flow hedges:
Net unrealized derivative gains (losses) on cash flow hedges
Reclassification adjustment on cash flow hedges
Income tax effect
Defined benefit pension plans:
Net loss, settlement cost and amortization of net (gain) loss recognized in income
Income tax effect
Total other comprehensive income
Comprehensive income

1,791(541)

| $2009$ | 2008 |  | 2007 |  |
| :---: | :---: | :---: | :---: | :---: |
| 13,737 | \$ | 62,478 | \$ | 74,890 |
| $\begin{gathered} 99,164 \\ (1,791) \end{gathered}$ |  | $(50,328)$ |  | 17,894 |
| $(27,251)$ |  | $(7,562)$ |  | 3,023 |
| $(43,295)$ |  |  |  |  |
| $\begin{gathered} 24,795 \\ (18,830) \end{gathered}$ |  | 21,090 |  | (8,335) |821


| $\mathbf{( 1 , 8 8 9 )}$ | $(9,223)$ | 1,405 |  |
| :---: | :---: | :---: | :---: |
| $\mathbf{7 5 6}$ | 3,689 | $(562)$ |  |
|  |  |  |  |
| $\mathbf{3 3 , 1 3 8}$ |  | $(42,159)$ | 13,768 |
| $\mathbf{4 6 , 8 7 5}$ | $\$$ | 20,319 | $\$$ |

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The following table summarizes the changes within each classification of accumulated other comprehensive income ( AOCI ) for the years ended December 31, 2009 and 2008:


## NET INCOME PER SHARE

Basic net income per share is computed by dividing net income available to common shareholders (net income less dividend requirements for preferred stock and accretion of preferred stock discount) by the weighted-average number of common shares outstanding during each year. Diluted net income per share is computed as above and assumes the conversion of outstanding stock options and restricted stock.
The following table reconciles basic and diluted net income per share for the years ended December 31.
EARNINGS PER SHARE RECONCILIATION

| (dollars and shares in thousands, except per share data) | 2009 |  | 2008 |  | 2007 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Basic Earnings Per Share |  |  |  |  |  |  |
| Net income | \$ | 13,737 | \$ | 62,478 | \$ | 74,890 |
| Less: Preferred stock dividends and accretion of discount |  | 3,892 |  | 298 |  |  |
| Net income available to common stockholders |  | 9,845 |  | 62,180 |  | 74,890 |
| Weighted average common shares outstanding |  | 71,314 |  | 65,660 |  | 65,684 |
| Basic Earnings Per Share | \$ | 0.14 | \$ | 0.95 | \$ | 1.14 |
| Diluted Earnings Per Share |  |  |  |  |  |  |
| Net income available to common stockholders | \$ | 9,845 | \$ | 62,180 | \$ | 74,890 |
| Weighted average common shares outstanding |  | 71,314 |  | 65,660 |  | 65,684 |
| Effect of dilutive securities: |  |  |  |  |  |  |
| Restricted stock (1) |  | 44 |  | 82 |  | 40 |
| Stock options (2) |  | 9 |  | 34 |  | 26 |

71,367
\$
Diluted Earnings Per Share
(1) 231, 0 and 96 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share at December 31, 2009, 2008 and 2007 , respectively, because the effect would be antidulitive.
(2) Options to purchase 6,032
shares, 5,611 shares and 5,756 shares outstanding at December 31, 2009, 2008, and 2007 , respectively, were not included in the computation of net income per diluted share 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.
(3) Warrants to purchase

813,008 shares at December 31, 2008, were not included in the computation because the effect would be antidilutive. See Note 15 to the consolidated financial statements.

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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 became effective for Old National on 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.

## STOCK-BASED COMPENSATION

Compensation cost is recognized for stock options and restricted stock awards issued to employees based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company s common stock at the date of grant is used for restricted stock awards. Compensation expense is recognized over the requisite service period.

## INCOME TAXES

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.
The Company adopted new guidance impacting FASB ASC 740-10 (FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes), as of January 1, 2007. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than $50 \%$ likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The impact of adopting FASB ASC 740-10 was a reduction to January 1, 2007 retained earnings of $\$ 3.4$ million.
The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

## STATEMENT OF CASH FLOWS DATA

For the purpose of presentation in the accompanying consolidated statement of cash flows, cash and cash equivalents are defined as cash, due from banks, federal funds sold and resell agreements, and money market investments, which have maturities less than 90 days. Cash paid during 2009, 2008 and 2007 for interest was $\$ 111.6$ million, $\$ 154.8$ million and $\$ 249.2$ million, respectively. Cash paid for income tax, net of refunds, during 2009, 2008 and 2007 was $\$ 2.7$ million, $\$ 18.9$ million and $\$ 30.0$ million, respectively. Other noncash transactions include loans transferred to loans held for sale of $\$ 2.6$ million in 2009, $\$ 2.2$ million in 2008 and $\$ 20.9$ million in 2007, leases transferred to held for sale of $\$ 370.2$ million in 2009, a transfer of securities of $\$ 230.1$ million from the available-for-sale portfolio to the held-to-maturity portfolio and premises and equipment transferred to assets held for sale of $\$ 74.1$ million in 2007.

## IMPACT OF ACCOUNTING CHANGES

FASB ASC 820-10 In February 2008, the FASB issued new guidance impacting FASB ASC 820-10, Fair Value Measurements and Disclosures (FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157). The staff position delays the effective date of FASB ASC 820-10 (SFAS No. 157, Fair Value Measurements) 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.
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 2 to the consolidated financial statements for the impact on the Company of adopting this standard.

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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 became effective for the Company on January 1, 2010 and did not have a material impact on the Company s consolidated financial position or results of operations.
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 became effective for the Company on January 1, 2010 and did not have a material impact on the Company s consolidated financial position or results of operations. 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 became effective for the Company on December 31, 2009. The new disclosures have been included in the consolidated financial statements.

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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 3 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 111 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.
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.

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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.
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 became effective for the Company for interim and annual reporting periods ending after December 15, 2009 and did not have a material impact on the Company s consolidated financial position or results of operations.
FASB ASC 505-20 In January 2010, the FASB issued an update (ASC No. 2010-01, Accounting for Distributions to Shareholders with Components of Stock and Cash) impacting FASB ASC 505-20, Equity Stock Dividends and Stock Splits. The amendments in this update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share and is not a stock dividend. This update became effective for the Company for interim and annual periods ending after December 15, 2009 and did not have a material impact on the Company s consolidated financial position or results of operations.

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FASB ASC 810-10 In January 2010, the FASB issued an update (ASC No. 2010-02, Accounting and Reporting for Decreases in Ownership of a Subsidiary a Scope Clarification) impacting FASB ASC 810-10, Consolidation. The amendments in this update address implementation issues related to the changes in ownership provisions originally issued as FASB Statement 160. It also improves the disclosures related to retained investments in a deconsolidated subsidiary or a preexisting interest held by an acquirer in a business combination. This update became effective for the Company for interim and annual periods ending after December 15, 2009 and did not have a material impact on the Company s consolidated financial position or results of operations.
FASB ASC 820-10 - In January 2010, the FASB issued an update (ASC No. 2010-06, Improving Disclosures about Fair Value Measurements) impacting FASB ASC 820-10, Fair Value Measurements and Disclosures. The amendments in this update require new disclosures about significant transfers in and out of Level 1 and Level 2 fair value measurements. The amendments also require a reporting entity to provide information about activity for purchases, sales, issuances and settlements in Level 3 fair value measurements and clarify disclosures about the level of disaggregation and disclosures about inputs and valuation techniques. This update becomes effective for the Company for interim and annual reporting periods beginning after December 15, 2009. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.
RECLASSIFICATIONS
Certain prior year amounts have been reclassified to conform to the 2009 presentation. Such reclassifications had no effect on net income and were insignificant amounts.

## NOTE 2 ACQUISITION ACTIVITY <br> ACQUISITION

On February 1, 2007, Old National acquired St. Joseph Capital Corporation ("St. Joseph ), a banking franchise headquartered in Mishawaka, Indiana, for $\$ 78.1$ million, including acquisition costs. Pursuant to the merger agreement, the shareholders of St. Joseph received $\$ 40.00$ in cash for each share of St. Joseph stock in an all-cash transaction. Goodwill of $\$ 45.8$ million was recorded, of which none is deductible for tax purposes. In addition, intangible assets totaling $\$ 14.5$ million related to core deposits and customer relationships were recorded and are being amortized over 10 to 11 years. See Note 7 to the consolidated financial statements for additional information. On the date of acquisition, unaudited financial statements of St. Joseph showed assets of $\$ 452.9$ million, which included $\$ 336.6$ million of loans and $\$ 78.6$ million of securities, $\$ 357.3$ million of deposits and year-to-date net interest income and other income of $\$ 0.8$ million and net loss of $\$ 3.3$ million.
On March 20, 2009, Old National completed its acquisition of the Indiana retail branch banking network of Citizens Financial Group, which consisted 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 $\$ 5.1$ million of costs related to the business combination 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 7 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.

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## NOTE 3 INVESTMENT SECURITIES

The following tables summarize the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at December 31 and the corresponding amounts of unrealized gains and losses therein:

| (dollars in thousands) | Amortized Cost |  | Unrealized Gains |  | Unrealized Losses |  | Fair Value |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2009 |  |  |  |  |  |  |  |  |
| Available-for-Sale |  |  |  |  |  |  |  |  |
| U.S. Treasury | \$ | 1,002 | \$ | 1 |  |  | \$ | 1,003 |
| U.S. Government-sponsored entities and agencies |  | 918,366 |  | 3,260 |  | $(7,389)$ |  | 914,237 |
| Mortgage-backed securities Agency |  | 688,439 |  | 19,783 |  | (93) |  | 708,129 |
| Mortgage-backed securities Non-agency |  | 216,215 |  | 933 |  | $(42,551)$ |  | 174,597 |
| States and political subdivisions |  | 508,496 |  | 27,159 |  | $(1,060)$ |  | 534,595 |
| Pooled trust prefered securities |  | 28,498 |  |  |  | $(16,100)$ |  | 12,398 |
| Other securities |  | 138,200 |  | 6,098 |  | $(3,038)$ |  | 141,260 |
| Total available-for-sale securities |  | ,499,216 | \$ | 57,234 | \$ | $(70,231)$ | \$ | ,486,219 |

## Held-to-Maturity

U.S. Government-sponsored entities and agencies

Mortgage-backed securities Agency
Other securities

Total held-to-maturity securities

| $\$$ | 227,461 | $\$$ | $\mathbf{2 , 0 2 9}$ | $\$$ | $(\mathbf{1 , 6 1 3})$ | $\$$ | $\mathbf{2 2 7 , 8 7 7}$ |
| ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| $\mathbf{1 6 5 , 6 3 9}$ |  | $\mathbf{3 , 9 3 4}$ |  |  |  | $\mathbf{1 6 9 , 5 7 3}$ |  |
|  | 2,909 |  |  |  | $\mathbf{( 4 0 6 )}$ |  | $\mathbf{2 , 5 0 3}$ |
|  |  |  |  |  |  |  |  |
| $\$$ | $\mathbf{3 9 6 , 0 0 9}$ | $\$$ | $\mathbf{5 , 9 6 3}$ | $\$$ | $\mathbf{( 2 , 0 1 9 )}$ | $\$$ | $\mathbf{3 9 9 , 9 5 3}$ |

2008
Available-for-Sale

| 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 |  |
| Held-to-Maturity |  |  |  |  |  |  |  |  |
| Mortgage-backed securities | \$ | 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 |

Proceeds from sales of investment securities available-for-sale were $\$ 1.042$ billion in 2009, $\$ 281.0$ million in 2008 and $\$ 205.4$ million in 2007. In 2009, realized gains were $\$ 28.2$ million and losses were $\$ 0.9$ million. Included in the realized gains is $\$ 1.1$ million of gains that resulted from approximately $\$ 353.8$ million of investment securities which were called by the issuers. Also impacting investment securities in 2009 are other-than-temporary-impairment charges

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related to credit loss on six pooled trust preferred securities and ten non-agency mortgage-backed securities in the amount of $\$ 24.8$ million, described below. In 2008, realized gains were $\$ 9.5$ million and losses were $\$ 1.9$ million for a net realized gain of $\$ 7.6$ million. The majority of this gain, or $\$ 5.4$ million, resulted from approximately $\$ 405.2$ million of investment securities which were called by the issuers. In 2007, realized gains were $\$ 1.2$ million and losses were $\$ 4.2$ million. At December 31, investment securities were pledged to secure public and other funds with a carrying value of $\$ 1.514$ billion in 2009 and $\$ 1.262$ billion in 2008.

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At December 31, 2009, Old National had a concentration of investment securities issued by certain states and their political subdivisions with the following aggregate market values: $\$ 169.6$ million by Indiana, which represented $20.1 \%$ of shareholders equity. At December 31, 2008, Old National had a concentration of investment securities issued by certain states and their political subdivisions with the following aggregate market values: $\$ 183.3$ million by Indiana, which represented $25.1 \%$ of shareholders equity, and $\$ 82.3$ million by Texas, which represented $11.3 \%$ of shareholders equity.
All of the mortgage-backed securities in the investment portfolio are residential mortgage-backed securities. The amortized cost and fair value of the investment securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Weighted average yield is based on amortized cost.

| (dollars in thousands) | 2009 |  | Weighted | 2008 |  | Weighted <br> Average Yield |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Amortized Cost | Fair <br> Value | Average Yield | Amortized Cost | Fair <br> Value |  |
| Maturity |  |  |  |  |  |  |
| Available-for-sale |  |  |  |  |  |  |
| Within one year | \$ 189,690 | \$ 178,687 | 3.97\% | \$ 156,293 | \$ 156,558 | 4.94\% |
| One to five years | 1,019,693 | 1,012,714 | 3.89 | 1,002,564 | 956,394 | 4.96 |
| Five to ten years | 350,866 | 357,566 | 4.61 | 382,923 | 382,311 | 5.78 |
| Beyond ten years | 938,967 | 937,252 | 5.28 | 647,865 | 629,763 | 6.04 |
| Total | \$ 2,499,216 | \$ 2,486,219 | 4.52\% | \$ 2,189,645 | \$ 2,125,026 | 5.42\% |
| Held-to-maturity |  |  |  |  |  |  |
| One to five years | \$ 168,548 | \$ 172,076 | 3.64\% | \$ 99,661 | \$ 100,831 | 4.50\% |
| Five to ten years | 227,461 | 227,877 | 3.88 |  |  |  |
| Total | \$ 396,009 | \$ 399,953 | 3.78\% | \$ 99,661 | \$ 100,831 | 4.50\% |

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


$\begin{array}{llllllllll}\text { Total held-to-maturity } & \$ & \$ & \$ 8,315 & \$ & (359) & \$ & 8,315 & \$\end{array}$
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).

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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. As of December 31, 2009, Old National s security portfolio consisted of 1,078 securities, 136 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 December 31, 2009, the Company s securities portfolio contained non-agency collateralized mortgage obligations with a market value of $\$ 174.6$ million which had net unrealized losses of approximately $\$ 41.6$ 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). As of December 31, 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 $\$ 27.2$ million, four of the securities are rated CCC with a market value of $\$ 34.9$ million and three of the securities are rated CC with a market value of $\$ 33.4$ 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, Old National recorded $\$ 4.4$ million of other-than-temporary impairment on these securities for the twelve months ended December 31, 2009. The market value of these non-agency mortgage-backed securities was $\$ 95.4$ million at

December 31, 2009.

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## 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 $\$ 14.4$ million amortized cost. These securities were rated A2 and A3 at inception, but at December 31, 2009, Moody s rated one security Baa2, one security Caa3 and five 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. For the twelve months ended December 31, 2009, our model indicated other-than-temporary-impairment losses on six securities of $\$ 28.6$ million, of which $\$ 20.4$ million was recorded as expense and $\$ 8.2$ million was recorded in other comprehensive income. At December 31, 2009, the book value of these six securities was $\$ 13.2$ million and they remained classified as available for sale. Together, the seven securities subject to FASB ASC 325-10 accounted for $\$ 8.4$ million of the unrealized loss in the pooled trust preferred securities category at December 31, 2009. Two of our pooled trust preferred securities are not subject to FASB ASC 325-10. These securities, with unrealized losses of $\$ 7.7$ million at December 31, 2009, were evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.
The following table details all securities with other-than-temporary-impairment, their credit rating at December 31, 2009 and the related credit losses recognized in earnings. There were no credit losses recognized prior to 2009.

| Vintage | Moody Rating <br> (1) |  | Book <br> Value | Amount of other-than-temporary-impairment recognized in earnings |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | First | Second | Third | Fourth |  |
|  |  |  |  | Quarter | Quarter | Quarter | Quarter | 2009 |
| 2007 | B2 | \$ | 14,106 | \$ | \$ | \$ | \$ 63 | \$ 63 |
| 2005 | B3 |  | 7,735 |  |  |  | 83 | 83 |
| 2005 | B3 |  | 9,646 |  |  |  | 182 | 182 |
| 2006 | CC |  | 10,339 |  |  | 276 | 486 | 762 |
| 2005 | B |  | 13,989 |  |  |  | 72 | 72 |
| 2007 | CCC |  | 22,246 |  |  |  | 223 | 223 |
| 2006 | CC |  | 32,992 |  |  |  | 1,880 | 1,880 |
| 2006 | CCC |  | 4,436 |  |  |  | 249 | 249 |
| 2006 | Caal |  | 7,868 |  |  | 216 | 523 | 739 |
| 2006 | B1 |  | 7,117 |  |  |  | 176 | 176 |
|  |  |  | 130,474 |  |  | 492 | 3,937 | 4,429 |

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Pooled trust preferred securities:

| TROPC | 2003 | Ca | 1,447 | 828 | 1,583 | 394 | 712 | 3,517 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| MM Community Funding IX | 2003 | Ca3 3 | 2,310 | 282 | 1,178 | 1,152 |  | 2,612 |
| Reg Div Funding | 2004 | Ca | 4,601 | 1,281 | 2,915 | 110 | 893 | 5,199 |
| Pretsl XII | 2003 | Ca | 2,895 |  | 810 | 517 | 570 | 1,897 |
| Pretsl XV | 2004 | Ca | 1,693 |  | 895 | 816 | 1,663 | 3,374 |
| Reg Div Funding | 2005 | Ca | 295 |  | 483 | 1,581 | 1,703 | 3,767 |
|  |  |  | 13,241 | 2,391 | 7,864 | 4,570 | 5,541 | 20,366 |
| Total other-than-temporaryimpairment recognized in earnings |  |  |  | \$ 2,391 | \$ 7,864 | \$ 5,062 | \$ 9,478 | \$ 24,795 |

(1) If Moody s rating not available, lowest rating was used.

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## NOTE 4 LOANS HELD FOR SALE

Since January 1, 2008, residential loans that Old National has committed to sell have been 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 market value. At December 31, 2009 and 2008, Old National had residential loans held for sale of $\$ 17.5$ million and $\$ 17.2$ million, respectively.
In June 2009, Old National transferred $\$ 370.2$ million of leases to held for sale status. 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 at September 30, 2009. Approximately $\$ 55.3$ million of finance leases remained available for sale at December 31, 2009. 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 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. At December 31, 2009, there were no loans held for sale under this arrangement.
During 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. At December 31, 2008, there were no loans held for sale under this arrangement.

## NOTE 5 LOANS

The composition of loans at December 31 by lending classification was as follows:

| (dollars in thousands) | $\mathbf{2 0 0 9}$ |  |
| :--- | ---: | ---: |
| Commercial | $\mathbf{2 1 , 2 8 7 , 1 6 8}$ | $\$ 1,897,966$ |
| Commercial real estate | $\mathbf{1 , 0 6 2 , 9 1 0}$ | $1,154,916$ |
| Residential real estate | $\mathbf{4 0 3 , 3 9 1}$ | 496,526 |
| Consumer credit, net of unearned income | $\mathbf{1 , 0 8 2 , 0 1 7}$ | $1,210,951$ |
| Total loans | $\mathbf{\$ 3 , 8 3 5 , 4 8 6}$ | $\$ 4,760,359$ |

Through its affiliate bank, Old National makes loans to clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. Old National predominately operates in the geographic market areas of Indiana, Illinois and Kentucky. Old National has no concentration of commercial loans in any single industry exceeding $10 \%$ of its portfolio.
Executive officers and directors of Old National and significant subsidiaries and their related interests are loan clients of Old National saffiliate bank in the normal course of business. An analysis of the current year activity of these loans is as follows:

| (dollars in thousands) | $\mathbf{2 0 0 9}$ |
| :--- | :---: |
| Balance, January 1 | $\mathbf{2 1 , 1 2 6}$ |
| New loans | $\mathbf{2 , 8 6 0}$ |
| Repayments | $\mathbf{( 7 , 3 4 9 )}$ |
| Officer and director changes | $\mathbf{( 9 2 5 )}$ |

Balance, December 31
\$ 15,712

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## NOTE 6 ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses was as follows:

| (dollars in thousands) | 2009 |  | 2008 |  | 2007 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance, January 1, | \$ | 67,087 | \$ | 56,463 | \$ | 67,790 |
| Additions: |  |  |  |  |  |  |
| Provision charged to expense |  | 63,280 |  | 51,464 |  | 4,118 |
| Allowance of acquired bank |  |  |  |  |  | 5,699 |
| Deductions: |  |  |  |  |  |  |
| Write-downs from loans transferred to held for sale |  | 572 |  |  |  | 5,337 |
| Loans charged-off |  | 78,039 |  | 51,220 |  | 26,938 |
| Recoveries |  | $(17,792)$ |  | $(10,380)$ |  | $(11,131)$ |
| Net charge-offs |  | $\mathbf{6 0 , 8 1 9}$ |  | 40,840 |  | 21,144 |
| Balance, December 31 | \$ | 69,548 | \$ | 67,087 | \$ | 56,463 |

Individually impaired loans were as follows:

|  | December | December |  |  |
| :--- | :---: | ---: | ---: | ---: |
|  |  | $\mathbf{3 1 ,}$ | $\mathbf{3 1 ,}$ |  |
| (dollars in thousands) | $\mathbf{2 0 0 9}$ | $\mathbf{2 0 0 8}$ |  |  |
| Impaired loans without an allowance for loan losses allocation | $\mathbf{1 2 , 6 5 9}$ | $\$$ | 13,968 |  |
| Impaired loans with an allowance for loan losses allocation |  | $\mathbf{3 6 , 4 5 2}$ |  | 38,425 |
| Total impaired loans | $\$$ | $\mathbf{4 9 , 1 1 1}$ | $\$$ | 52,393 |
|  |  |  |  |  |
| Allowance for loan losses allocated to impaired loans | $\mathbf{\$}$ | $\mathbf{1 4 , 5 0 3}$ | $\$$ | 13,599 |

For the years ended December 31, 2009 and 2008, the average balance of impaired loans was $\$ 58.6$ million and $\$ 56.5$ 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) | $\begin{gathered} \text { December } \\ \text { 31, } \\ 2009 \end{gathered}$ |  | $\begin{gathered} \text { December } \\ \text { 31, } \\ 2008 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| Nonaccrual loans | \$ | 67,016 | \$ | 64,041 |
| Renegotiated loans not on nonaccrual |  |  |  |  |
| Total nonperforming loans | \$ | 67,016 | \$ | 64,041 |
| Past due loans (90 days or more and still accruing) |  | 3,501 |  | 2,908 |

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

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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 December 31, 2009, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled $\$ 10.0$ million and had specific allocations of allowance for loan losses of $\$ 3.5$ million. There were no loans modified in troubled debt restructurings at December 31, 2008.

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## NOTE 7 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill by segment for the years ended December 31, 2009 and 2008:

| (dollars in thousands) | Community Banking |  | Other |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance, January 1, 2009 | \$ | 119,325 | \$ | 39,873 | \$ | 159,198 |
| Goodwill acquired during the period |  | 8,686 |  |  |  | 8,686 |
| Balance, December 31, 2009 | \$ | 128,011 | \$ | 39,873 | \$ | 167,884 |
| Balance, January 1, 2008 | \$ | 119,325 | \$ | 39,873 | \$ | 159,198 |
| Goodwill acquired during the period |  |  |  |  |  |  |
| Balance, December 31, 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 amounts and accumulated amortization of other intangible assets at December 31, 2009 and 2008 was as follows:

| (dollars in thousands) | Gross <br> Carrying <br> Amount |  | Accumulated Amortization |  | Net <br> Carrying Amount |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2009 |  |  |  |  |  |  |
| Amortized intangible assets: |  |  |  |  |  |  |
| Core deposit | \$ | 26,810 | \$ | $(10,794)$ | \$ | 16,016 |
| Customer business relationships |  | 25,753 |  | $(12,705)$ |  | 13,048 |
| Customer loan relationships |  | 4,413 |  | $(1,170)$ |  | 3,243 |
| Total intangible assets | \$ | 56,976 | \$ | $(24,669)$ | \$ | 32,307 |
| 2008 |  |  |  |  |  |  |
| 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 lives, generally over a period of 7 to 25 years. During the first quarter of 2009 , Old National recorded $\$ 11.2$ million of core deposit intangibles associated with the acquisition of the branch banking network of Citizens Financial Group, which is included in the Community Banking segment. (See Note 22 to the consolidated financial statements for a description of the Company s operating segments.) During the first quarter of 2008, Old National recorded $\$ 0.2$ million of customer relationship intangibles
associated with the purchase of an insurance book of business, which is included in the Other column for segment reporting.
Old National reviews other intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Old National recorded impairment charges of $\$ 0.5$ million and $\$ 0.7$ million during the fourth quarter of 2009 and the second quarter of 2008 , respectively. Both charges related to a book of business held by one of the Company s insurance subsidiaries which experienced the loss of two significant customers. The insurance subsidiary is included in the Other column for segment reporting. Total amortization expense including impairment charges associated with intangible assets was $\$ 6.5$ million in 2009, $\$ 4.4$ million in 2008 and $\$ 3.5$ million in 2007.

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Estimated amortization expense for the future years is as follows:

|  | Estimated <br> Amortization |
| :--- | ---: |
| (dollars in thousands) | Expense |
| 2010 | 6,130 |
| 2011 | 5,546 |
| 2012 | 4,840 |
| 2013 | 4,050 |
| 2014 | 3,259 |
| Thereafter | 8,482 |
| Total | $\$$ |

## NOTE 8 DEPOSITS

The aggregate amount of time deposits in denominations of $\$ 100,000$ or more at December 31, 2009 and 2008 was $\$ 653.3$ million and $\$ 550.0$ million, respectively. At December 31, 2009, the scheduled maturities of total time deposits were as follows:
(dollars in thousands)
Due in 2010 \$ 1,074,639
Due in 2011 337,345
Due in 2012 244,240
Due in 2013 188,986
Due in 2014
Thereafter
129,307
SFAS 133 fair value hedge
Total
\$ 2,007,554

## NOTE 9 SHORT-TERM BORROWINGS

The following table presents the distribution of Old National s short-term borrowings and related weighted-average interest rates for each of the years ended December 31:

| (dollars in thousands) | Federal Funds Purchased |  | Other |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | Repurchase <br> Agreements |  | Short-term Borrowings |  | Total |  |
| 2009 |  |  |  |  |  |  |  |  |
| Outstanding at year-end | \$ | 1,483 | \$ | 318,088 | \$ | 11,573 | \$ | 331,144 |
| Average amount outstanding |  | 155,982 |  | 297,148 |  | 74,017 |  | 527,147 |
| Maximum amount outstanding at any month-end |  | 488,392 |  | 319,590 |  | 158,809 |  |  |
| Weighted average interest rate: |  |  |  |  |  |  |  |  |
| During year |  | 0.20\% |  | 0.20\% |  | 0.68\% |  | 0.27\% |
| End of year |  |  |  | 0.17 |  |  |  | 0.16 |
| 2008 |  |  |  |  |  |  |  |  |
| Outstanding at year-end | \$ | 287,155 | \$ | 332,505 | \$ | 29,963 | \$ | 649,623 |


| Average amount outstanding | 233,648 | 324,659 | 58,628 | 616,935 |
| :--- | :---: | :---: | :---: | :---: |
| Maximum amount outstanding at any <br> month-end | 403,201 | 362,532 | 130,393 |  |
| Weighted average interest rate: | $2.09 \%$ | $1.23 \%$ | $3.45 \%$ | $1.77 \%$ |
| During year | 0.20 | 0.26 | 0.77 | 0.26 |

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## Other Short-term Borrowings <br> Line of Credit

During the first quarter of 2008, Old National entered into a $\$ 100$ million revolving credit facility at the parent company level. Three unrelated financial institutions serve as lenders for the facility. During part of 2008, $\$ 55$ million was outstanding under the revolving credit facility and was included in other short-term borrowings. The facility had an interest rate of LIBOR plus $1.00 \%$ and a maturity of 364 days. There was no amount outstanding as of December 31, 2008. On February 13, 2009, the line of credit was terminated.
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 December 31, 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 December 31, 2009.

## Treasury Investment Program

As of December 31, 2009, Old National had $\$ 11.6$ 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 December 31, 2009, the effective interest rate on these funds was $0 \%$.

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## NOTE 10 FINANCING ACTIVITIES

The following table summarizes Old National and its subsidiaries other borrowings at December 31:
(dollars in thousands)
Old National Bancorp:
Senior unsecured notes (fixed rate $5.00 \%$ ) maturing May 2010
Junior subordinated debentures (fixed rates $6.27 \%$ to $8.00 \%$ and variable rate
$3.30 \%$ ) maturing maturing April 2032 to March 2035
SFAS 133 fair value hedge and other basis adjustments

## Old National Bank:

Securities sold under agreements to repurchase (fixed rates $2.45 \%$ to $3.46 \%$ and variable rate $3.08 \%$ ) maturing December 2010 to October 2014
Federal Home Loan Bank advances (fixed rates 3.20\% to $8.34 \%$ and variable rates $1.85 \%$ to $2.56 \%$ ) maturing August 2011 to January 2023
Subordinated bank notes (fixed rate $6.75 \%$ ) maturing October 2011
Capital lease obligation
SFAS 133 fair value hedge and other basis adjustments
Total other borrowings
Contractual maturities of long-term debt at December 31, 2009, were as follows:
(dollars in thousands)
Due in 2010
Due in 2011
\$ 74,043

Due in 2012 225,046

Due in 2013 100,688

Due in 2014
76,170

Thereafter
50,889

SFAS 133 fair value hedge and other basis adjustments
Total

| $\mathbf{2 0 0 9}$ |  | $\mathbf{2 0 0 8}$ |  |
| ---: | ---: | ---: | ---: |
| $\mathbf{\$}$ | $\mathbf{5 0 , 0 0 0}$ | $\$$ | 50,000 |
|  |  |  |  |
|  | $\mathbf{1 0 8 , 0 0 0}$ |  | 108,000 |
|  | $(\mathbf{7 2 6})$ |  | $(771)$ |


| $\mathbf{9 9 , 0 0 0}$ | 99,000 |
| ---: | ---: |
|  |  |
| $\mathbf{2 8 9 , 9 7 4}$ | 425,198 |
| $\mathbf{1 5 0 , 0 0 0}$ | 150,000 |
| $\mathbf{4 , 3 5 0}$ | 4,390 |
| $\mathbf{( 1 , 5 3 9 )}$ | $(950)$ |

\$ 699,059 \$ 834,867

## FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances had weighted-average rates of $3.68 \%$ and $3.81 \%$ at December 31, 2009, and 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.

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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.
In 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 new branch office building in Owensboro, Kentucky, which extends for 25 years with one renewal option for 10 years. The economic substance of this lease is that Old National is financing the acquisition of the building through the lease and accordingly, the building is recorded as an asset and the lease obligation 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 December 31, 2009, the future minimum lease payments under the capital lease were as follows:

## (dollars in thousands)

| 2010 | 390 |
| :--- | ---: |
| 2011 | $\$ 90$ |
| 2012 | 390 |
| 2013 | 390 |
| 2014 | 410 |
| Thereafter | 10,903 |
| Total minimum lease payments | 12,873 |
| Less amounts representing interest | 8,523 |
| Present value of net minimum lease payments | $\$ 4,350$ |

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## NOTE 11 INCOME TAXES

Following is a summary of the major items comprising the differences in taxes computed at the federal statutory tax rate and as recorded in the consolidated statement of income for the years ended December 31:

| (dollars in thousands) | 2009 |  | 2008 |  | 2007 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Provision at statutory rate of 35\% | \$ | $(2,582)$ | \$ | 21,560 | \$ | 32,275 |
| Tax-exempt income |  | $(14,854)$ |  | $(15,695)$ |  | $(14,298)$ |
| Reserve for unrecognized tax benefits |  | (706) |  | $(6,611)$ |  | $(1,847)$ |
| State income taxes |  | $(3,829)$ |  | (398) |  | 140 |
| Other, net |  | 857 |  | 267 |  | 1,053 |
| Income tax expense (benefit) | \$ | $(21,114)$ | \$ | (877) | \$ | 17,323 |
| Effective tax rate |  | 286.2\% |  | (1.4)\% |  | 18.8\% |

The effective tax rate varied significantly from 2007 to 2009 due to large fluctuations in pre-tax income while the other items affecting the rate, in particular tax-exempt income, remained relatively stable. The provision for income taxes consisted of the following components for the years ended December 31:

| (dollars in thousands) | 2009 |  | 2008 |  | 2007 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Income taxes currently payable |  |  |  |  |  |  |
| Federal | \$ | 4,248 | \$ | 8,269 | \$ | 32,732 |
| State |  |  |  | (612) |  | 216 |
| Deferred income taxes related to: |  |  |  |  |  |  |
| Provision for loan losses |  | $(3,042)$ |  | $(5,982)$ |  | 4,443 |
| Other, net |  | $(22,320)$ |  | $(2,552)$ |  | $(20,068)$ |
| Deferred income tax benefit |  | $(25,362)$ |  | $(8,534)$ |  | $(15,625)$ |
| Provision for (benefit from) income taxes | \$ | $(21,114)$ | \$ | (877) | \$ | 17,323 |

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Significant components of net deferred tax assets (liabilities) were as follows at December 31:

| (dollars in thousands) | 2009 |  | 2008 |  |
| :---: | :---: | :---: | :---: | :---: |
| Deferred Tax Assets |  |  |  |  |
| Allowance for loan losses, net of recapture | \$ | 35,183 | \$ | 32,141 |
| Benefit plan accruals |  | 6,131 |  | 3,107 |
| AMT credit |  | 25,075 |  | 15,999 |
| Unrealized losses on available- for-sale investment securities |  | 5,276 |  | 24,106 |
| Unrealized losses on hedges |  |  |  | 311 |
| Unrealized losses on benefit plans |  | 9,102 |  | 8,346 |
| Net operating loss |  | 3,578 |  | 681 |
| Premises and equipment |  | 37,715 |  | 38,566 |
| Other-than-temporary-impairment |  | 9,451 |  |  |
| Other, net |  | 5,223 |  | 5,726 |
| Total deferred tax assets |  | 136,734 |  | 128,983 |
| Deferred Tax Liabilities |  |  |  |  |
| Accretion on investment securities |  | (993) |  | (437) |
| Lease receivable, net |  | $(7,434)$ |  | $(7,008)$ |
| Purchase accounting |  | $(11,285)$ |  | $(10,899)$ |
| Unrealized gains on held-to-maturity securities |  | (541) |  |  |
| Unrealized gains on hedges |  | (131) |  |  |
| Other, net |  | $(3,533)$ |  | $(4,127)$ |
| Total deferred tax liabilities |  | $(23,917)$ |  | $(22,471)$ |
| Net deferred tax assets | \$ | 112,817 | \$ | 106,512 |

No valuation allowance was recorded at December 31, 2009 and 2008 because, based on current expectations, Old National believes it will generate sufficient income in future years to realize deferred tax assets. Old National does not have a federal net operating loss carryforward at December 31, 2009. Old National has state net operating loss carryforwards totaling $\$ 66.0$ million. If not used, the net operating loss carryforwards will begin to expire in 2022. Unrecognized Tax Benefits
The Company adopted FASB ASC 740-10, Income Taxes (FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes), on January 1, 2007. 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) | 2009 |  | 2008 |  | 2007 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance at January 1 | \$ | 7,513 | \$ | 11,554 | \$ | 11,002 |
| Additions based on tax positions related to the current year |  | 1,638 |  | 2,054 |  | 1,248 |
| Reductions due to statute of limitations expiring |  | (651) |  |  |  |  |
| Reductions for tax positions of prior years |  |  |  | $(4,735)$ |  |  |
| Settlements |  |  |  | $(1,360)$ |  | (696) |
| Balance at December 31 | \$ | 8,500 | \$ | 7,513 | \$ | 11,554 |

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Settlements include effective settlements from tax audits. No cash settlements were paid during 2009. Approximately $\$ 1.3$ million of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

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It is the Company s policy to recognize interest and penalties accrued relative to unrecognized tax benefits in their respective federal or state income tax accounts. The Company recorded interest and penalties in the income statement for the years ended December 31, 2009, 2008 and 2007 of $\$ 0$, a benefit of $\$ 0.2$ million and $\$ 1.2$ million, respectively. The amount accrued for interest and penalties in the balance sheet at both December 31, 2009 and 2008 was $\$ 1.3$ million.
The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. The 2006 through 2009 tax years are open and subject to examination.
In the third quarter of 2009, the Company reversed $\$ 0.7$ million related to uncertain tax positions accounted for under FASB ASC 740-10 (FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes). The positive $\$ 0.7$ million income tax reversal relates to the 2005 statute of limitations expiring. The statute of limitations expired in the third quarter of 2009. As a result, the Company reversed a total of $\$ 0.7$ million from its unrecognized tax benefit liability which includes $\$ .05$ million of interest.
In the first quarter of 2008, the Company reversed $\$ 6.6$ million related to uncertain tax positions accounted for under FASB ASC 740-10 (FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes). The positive $\$ 6.6$ million income tax reversal primarily relates to a U.S. Tax Court decision confirming that a subsidiary of a bank can deduct the interest expense of tax exempt obligations it has purchased. The time for the Internal Revenue Service to appeal the court ruling expired in the first quarter. The Company also was informed by the Internal Revenue Service that they would not audit tax year 2005 as they previously indicated. The statute of limitations for 2005 subsequently expired in the third quarter of 2009. As a result of these items, the Company reversed a total of $\$ 6.6$ million from its unrecognized tax benefit liability which includes $\$ 0.5$ million of interest.

## NOTE 12 EMPLOYEE BENEFIT PLANS <br> RETIREMENT PLAN AND RESTORATION 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 spolicy is to contribute at least the minimum funding requirement determined by the plan s actuary. 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 Corporation.
Old National adopted guidance impacting FASB ASC 715 (Statement of Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and $123(R)$ as of December 31, 2006. FASB ASC 715 requires that the company recognize the overfunded or underfunded status of its defined benefit plans as an asset or liability in the balance sheet. Future changes in the funded status will be recognized through comprehensive income in the year in which they occur.

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Old National uses a December 31 measurement date for its defined benefit pension plans. The following table presents the combined activity of the Company $s$ defined benefit plans:

| (dollars in thousands) | $\mathbf{2 0 0 9}$ | $\mathbf{2 0 0 8}$ |
| :--- | :---: | :---: |
| Change in Projected Benefit Obligation | $\mathbf{8 4 , 5 6 9}$ | $\$$ |
| Balance at January 1 | $\mathbf{1 , 9 7 4}$ | 41,731 |
| Interest cost | $\mathbf{( 2 , 2 1 3})$ | $(1,487)$ |
| Benefits paid | $\mathbf{7 , 6 0 7}$ | $(5,275)$ |
| Actuarial (gain)/loss |  | $(2,543)$ |
| Settlement | $\mathbf{4 1 , 9 3 7}$ | 34,569 |
| Projected Benefit Obligation at December 31 |  |  |
|  |  |  |
| Change in Plan Assets | $\mathbf{2 6 , 9 2 0}$ | 43,641 |
| Fair value at January 1 | $\mathbf{6 , 1 9 8}$ | $(13,458)$ |
| Actual return on plan assets | $\mathbf{3 7 0}$ | 767 |
| Employer contributions | $\mathbf{2 , 2 1 3}$ | $(1,487)$ |
| Benefits paid |  | $(2,543)$ |
| Settlement | $\mathbf{3 1 , 2 7 5}$ | 26,920 |
| Fair value of Plan Assets at December 31 | $\mathbf{( 1 0 , 6 6 2 )}$ | $(7,649)$ |

Amounts recognized in the statement of financial position at December 31:
Prepaid benefit cost
\$ $(\mathbf{1 0 , 6 6 2 )}$ \$
Accrued benefit liability
$(10,662)$
Net amount recognized
$\$(10,662) \quad \$$
(10,662)

Amounts recognized in accumulated other comprehensive income at December 31:

| Net actuarial loss | $\mathbf{\$}$ | $\mathbf{2 2 , 7 5 4}$ | $\$$ | 20,865 |
| :--- | :--- | :--- | :--- | :--- |
| Total | $\mathbf{\$}$ | $\mathbf{2 2 , 7 5 4}$ | $\$$ | 20,865 |

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $\$ 1.6$ million.
The accumulated benefit obligation and the projected benefit obligation were equivalent for the defined benefit pension plans and were $\$ 41.9$ million and $\$ 34.6$ million at December 31, 2009 and 2008, respectively.

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The net periodic benefit cost and its components were as follows for the years ended December 31:

| (dollars in thousands) | $\mathbf{2 0 0 9}$ |  | $\mathbf{2 0 0 8}$ |  | $\mathbf{2 0 0 7}$ |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Net Periodic Benefit Cost | $\$$ | $\mathbf{1 , 9 7 4}$ | $\$$ | 2,143 | $\$$ | 2,343 |
| Interest cost |  | $\mathbf{( 1 , 9 3 3 )}$ |  | $(3,169)$ | $(3,331)$ |  |
| Expected return on plan assets |  | $\mathbf{1 , 4 5 3}$ |  | 632 |  |  |
| Recognized actuarial loss | $\$$ | $\mathbf{1 , 4 9 4}$ | $\$$ | $(394)$ | $\$$ | $(216)$ |
| Net periodic benefit cost |  |  |  | 1,498 |  | 1,188 |
| Settlement cost | $\$$ | $\mathbf{1 , 4 9 4}$ | $\$$ | 1,104 | $\$$ | 972 |

## Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income

Net actuarial loss
Amortization of net actuarial loss
\$ 3,342 \$ $11,353 \quad \$ \quad 556$
$(\mathbf{1 , 4 5 3 )}(632)$

Total recognized in Other Comprehensive Income
\$ 1,889 \$ 9,223 \$
$(1,405)$
Total recognized in net periodic benefit cost and other comprehensive income
\$ 3,383 $\quad \$ \quad 10,327 \quad \$$
The weighted-average assumptions used to determine the benefit obligations as of the end of the years indicated and the net periodic benefit cost for the years indicated are presented in the table below. Because the plans are frozen, increases in compensation are not considered.

Benefit obligations:
Discount rate at the end of the period
Net periodic benefit cost:
Discount rate at the beginning of the period
Expected return on plan assets
Rate of compensation increase
The expected long-term rate of return for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation of the plan. The discount rate used reflects the expected future cash flow based on Old National s funding valuation assumptions and participant data as of the beginning of the plan year. The expected future cash flow is discounted by the Citigroup Pension Liability Index yield curve for the month preceding the fiscal year-end.
Old National s asset allocation of the Retirement Plan as of year-end is presented in the following table. Old National s Restoration Plan is unfunded.

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| Equity securities | $9.00 \%-9.50 \%$ | $40-70 \%$ | $\mathbf{7 1 \%}$ | $66 \%$ | $67 \%$ |
| :--- | ---: | ---: | ---: | ---: | ---: |
| Debt securities | $4.00 \%-5.85 \%$ | $30-60 \%$ | $\mathbf{2 9}$ | 34 | 32 |
| Cash equivalents | $0-15 \%$ |  |  | 1 |  |
|  |  |  | $\mathbf{1 0 0 \%}$ | $100 \%$ | $100 \%$ |

The Company s overall investment strategy is to achieve a mix of approximately $40 \%$ to $70 \%$ of equity securities, $30 \%$ to $60 \%$ of debt securities and $0 \%$ to $15 \%$ of cash equivalents. Fixed income securities and cash equivalents must meet minimum rating standards. Exposure to any particular company or industry is also limited. The investment policy is reviewed annually. There was no Old National stock in the plan as of December 31, 2009, 2008 and 2007, respectively.

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The fair value of the Company s plan assets are determined based on observable level 1 or 2 pricing inputs, including quoted prices for similar assets in active or non-active markets. As of December 31, 2009, the fair value of plan assets, by asset category, is as follows:
$\left.\begin{array}{llcccc} & & \text { Fair Value Measurements at December 31, 2009 } \\ \text { Using } \\ \text { Significant }\end{array}\right]$

As of December 31, 2009, expected future benefit payments related to Old National s defined benefit plans were as follows:
(dollars in thousands)

| 2010 | $\$, 080$ |
| :--- | ---: |
| 2011 | 3,550 |
| 2012 | 3,920 |
| 2013 | 3,210 |
| 2014 | 3,320 |
| Years 2015-2019 | 13,950 |

Old National expects to contribute cash of $\$ 0.7$ million to the pension plans in 2010.

## EMPLOYEE STOCK OWNERSHIP PLAN

Effective January 1, 2006, the Employee Stock Ownership and Savings Plan (401k) was amended. The amended plan permits employees to participate the first month following one month of service. Old National s contributions to the plan were made in the form of Old National Bancorp stock or cash contributed to the plan for purchase of Old National Bancorp stock on the market. Old National will match $100 \%$ of participant contributions up to $6 \%$ of each participant s salary. All contributions vest immediately and plan participants may elect to diversify 2006 and all future contributions. Those participants who have attained the age of 55 may also diversify previous contributions. Effective October 1, 2006, the plan was amended to allow all participants to diversify previous contributions of Old National Bancorp stock. Effective October 1, 2008, Old National s contributions are in cash and invested in the Plan s investment options in the same percentages as participant contributions. In addition, Old National may contribute an amount designated at the sole discretion of the Board of Directors. Old National s Board of Directors designated no discretionary contributions in 2009, 2008 or 2007. During the years ended December 31, 2009, 2008 and 2007, the number of Old National shares allocated to the plan were 1.7 million, 1.8 million and 1.9 million, respectively. All shares owned through the plan are included in the calculation of weighted-average shares outstanding for purposes of
calculating diluted and basic earnings per share. Contribution expense under the plan was $\$ 7.1$ million in 2009, $\$ 6.6$ million in 2008 and $\$ 6.4$ million in 2007.

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## NOTE 13 STOCK-BASED COMPENSATION STOCK-BASED COMPENSATION

The Company s 2008 Incentive Compensation Plan, which was shareholder-approved, permits the grant of share-based awards to its employees. At December 31, 2009, 1.4 million shares were available for issuance. The granting of awards to key employees is typically in the form of restricted stock or options to purchase common shares of stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Total compensation cost that has been charged against income for these plans was $\$ 1.3$ million, $\$ 2.0$ million, and $\$ 1.6$ million for 2009, 2008, and 2007, respectively. The total income tax benefit was $\$ 0.5$ million, $\$ 0.7$ million, and $\$ 0.6$ million, respectively.
Stock Options
Option awards are generally granted with an exercise price equal to the market price of the Company s common stock at the date of grant; these option awards have vesting periods ranging from 3 to 5 years and have 10 -year contractual terms.
The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model and the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company s common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted represents the period of time that options granted are expected to be outstanding and is calculated using the simplified method allowed by SAB 110. The simplified method is used in lieu of historical experience because Old National does not have adequate historical experience to provide a reasonable basis upon which to estimate expected term. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.
The fair value of options granted was determined using the following weighted-average assumptions as of grant date.

Wtd-average risk-free interest rate
Expected life of option (years)
Expected stock volatility
Expected dividend yield
A summary of the activity in the stock option plan for 2009 follows:

| $\mathbf{2 0 0 9}$ | $\mathbf{2 0 0 8}$ | $\mathbf{2 0 0 7}$ |
| ---: | :---: | :---: |
| $\mathbf{2 . 1 \%}$ | $3.0 \%$ | $4.9 \%$ |
| $\mathbf{6}$ | 6 | 6 |
| $\mathbf{2 8 . 8 \%}$ | $15.8 \%$ | $15.0 \%$ |
| $\mathbf{5 . 3 \%}$ | $5.3 \%$ | $4.2 \%$ |



Information related to the stock option plan during each year follows:


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| Cash received from option exercises | $\mathbf{9 7}$ | 1,940 | 130 |
| :--- | ---: | ---: | ---: |
| Tax benefit realized from option exercises |  | 45 |  |
| Weighted average fair value of options granted | $\mathbf{2 . 0 3}$ | 1.12 | 3.39 |

As of December 31, 2009, there was $\$ 0.4$ million of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1 year.

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During 2009, the Company modified the term of 23 thousand share options. As a result of the modification, the Company recognized additional compensation expense of $\$ 35$ thousand for the year ended December 31, 2009. There were no modifications during 2008 and 2007.
Restricted Stock
Restricted stock awards require certain service-based or performance requirements and commonly have vesting periods ranging from 3 to 5 years. Compensation expense is recognized over the vesting period of the award based on the fair value of the stock at the date of issue adjusted for various performance conditions.
A summary of changes in the Company s nonvested shares for the year follows:
$\left.\begin{array}{lrrr} & & \begin{array}{c}\text { Weighted } \\ \text { Average }\end{array} \\ \text { Grant-Date }\end{array}\right]$

As of December 31, 2009, there was $\$ 1.8$ million of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.02 years. The total fair value of the shares vested during the years ended December 31, 2009, 2008 and 2007 was $\$ 1.4$ million, $\$ 0.8$ million and $\$ 0.6$ million.
During 2008, the Company modified the number of shares, performance period and vesting schedule of a restricted stock award issued to an employee. As a result of that modification, the Company recognized additional compensation expense of $\$ 45$ thousand for the year ended December 31, 2008. There were no restricted stock modifications during 2007.

## Restricted Stock Units

Restricted stock units require certain performance requirements and have vesting periods of 3 years. Compensation expense is recognized over the vesting period of the award based on the fair value of the stock at the date of issue adjusted for various performance conditions.
A summary of changes in the Company s nonvested shares for the year follows:
$\left.\begin{array}{lrrr} & & \begin{array}{c}\text { Weighted } \\ \text { Average }\end{array} \\ \text { Grant-Date } \\ \text { Fair Value }\end{array}\right\}$

As of December 31, 2009, there was $\$ 0.9$ million of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.00 years. Old National began granting restricted stock units during 2009 and no shares had vested as of December 31, 2009.
NOTE 14 OUTSIDE DIRECTOR STOCK COMPENSATION PROGRAM
Old National maintains a director stock compensation program covering all outside directors. Compensation shares are earned semi-annually. A maximum of 165,375 shares of common stock is available for issuance under this
program. As of December 31, 2009, Old National had issued 46,805 shares under this program.

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## NOTE 15 SHAREHOLDERS EQUITY <br> DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

Old National has a dividend reinvestment and stock purchase plan under which common shares issued may be either repurchased shares or authorized and previously unissued shares. A new plan became effective on August 17, 2009, with total authorized and unissued common shares reserved for issuance of 3.4 million. In 2009, 195 thousand shares were issued related to these plans with proceeds of approximately $\$ 2.0$ million. As of December 31, 2009, 3.3 million authorized and unissued common shares were reserved for issuance under the plan.

## EMPLOYEE STOCK PURCHASE PLAN

Old National has an employee stock purchase plan under which eligible employees can purchase common shares at a price not less than $95 \%$ of the fair market value of the common shares on the purchase date. The amount of common shares purchased can not exceed ten percent of the employee $s$ compensation. The maximum number of shares that may be purchased under this plan is 500,000 shares.

## SHAREHOLDER RIGHTS PLAN

Old National has a Rights Agreement whereby one right is distributed for each outstanding share of Old National s common stock. The rights become exercisable on the tenth day following a public announcement that a person has acquired or intends to acquire beneficial ownership of $20 \%$ or more of Old National s outstanding common stock. Upon exercising the rights, the holder is entitled to buy $1 / 100$ of a share of Junior Preferred Stock at $\$ 60$, subject to adjustment, for every right held. Upon the occurrence of certain events, the rights may be redeemed by Old National at a price of $\$ 0.01$ per right.
In the event an acquiring party becomes the beneficial owner of $20 \%$ or more of Old National s outstanding shares, rights holders (other than the acquiring person) may purchase two shares of Old National common stock for the price of one share at the then market price. If Old National is acquired and is not the surviving corporation, or if Old National survives a merger but has all or part of its common stock exchanged, each rights holder will be entitled to acquire shares of the acquiring company with a value of two times the then exercise price for each right held. The Old National Rights Agreement is scheduled to expire on March 1, 2010. As previously disclosed in our current report on Form 8-K filed with the SEC on February 2, 2010, Old National s Board of Directors elected not to take action to amend or extend the term of the Rights Agreement.

## PREFERRED STOCK

On December 12, 2008, Old National announced that it had entered into an agreement to sell Series T Preferred Stock having a liquidation value of $\$ 100$ million to the Treasury Department as part of the CPP for healthy financial institutions announced in late October 2008. As part of the CPP, Old National 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 Series T Preferred Stock and (ii) 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 net proceeds were allocated between the Series T Preferred Stock and Warrants based on relative fair value. The Series T Preferred Stock would be accreted to liquidation value over the expected life of the shares, with accretion charged to retained earnings. 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 Series T 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. On March 31, 2009, Old National accelerated the accretion of the $\$ 2.6$ million discount and repurchased all of the $\$ 100$ million of Series T Preferred Stock from the Treasury Department.

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The Warrants had a 10-year term and were immediately exercisable upon issuance. The Warrants were repurchased by Old National on May 11, 2009, for $\$ 1.2$ million. As a result of the Warrant repurchase, the Treasury Department does not own any securities of Old National issued under the CPP.

## COMMON STOCK

The December 31, 2009 balance includes approximately $\$ 195.7$ million, net of issuance costs, from a public offering of 20.7 million shares of common stock that occurred late in the third quarter of 2009.

## NOTE 16 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.
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).

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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:
(dollars in thousands)
Financial Assets
Investment securities available-for-sale:
U.S. Treasury
U.S. Government-sponsored entities and agencies
Mortgage-backed securities Agency
Mortgage-backed securities Non-agency
States and political subdivisions
Pooled trust preferred securities
Other securities
Residential loans held for sale
Derivative assets
Financial Liabilities
Derivative liabilities
(dollars in thousands)

## Financial Assets

Investment securities available-for-sale:
U.S. Government-sponsored entities and agencies
Mortgage-backed securities Agency
Mortgage-backed securities Non-agency
States and political subdivisions
Pooled trust preferred securities

Other securities
Residential loans held for sale
Derivative assets
Financial Liabilities
Certain retail certificates of deposit
Derivative liabilities

152,258
152,258
17,155 17,155
46,768
46,768
49,309
49,309
47,414

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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 twelve months ended December 31, 2009:
$\left.\begin{array}{lr} & \begin{array}{c}\text { Fair Value } \\ \text { Measurements } \\ \text { using Significant } \\ \text { Unobservable Inputs } \\ \text { (Level 3) }\end{array} \\ \text { Pooled Trust Preferred } \\ \text { Securities Available- } \\ \text { for-Sale }\end{array}\right\}$

Included in the income statement is $\$ 141$ thousand in interest expense from the amortization of discounts 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.
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 twelve months ended December 31, 2008:
(dollars in thousands)
Beginning balance, January 1, 2008
Accretion/amortization of discount or premium
Payments received
Decrease in fair value of securities
Fair Value
Measurements
using Significant
Unobservable Inputs
(Level 3)
Pooled Trust Preferred
Securities Available-
for-Sale
\$

Transfers in and/or out of Level 3 (12,53)
Transfers in and/or out of Level 3 32,286

Ending balance, December 31, 2008
\$
19,667
Assets measured at fair value on a non-recurring basis are summarized below:
Fair Value Measurements at December 31, 2009
Using Significant
Quoted
Prices in
Other
Significant


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(dollars in thousands)

## Financial Assets

Impaired loans

Fair Value Measurements at December 31, 2008
Using
Significant

| Quoted <br> Prices in <br> Active | Other | Significant |
| :---: | :---: | :---: |
| Markets |  |  |
| for | Observable | Unobservable |
| Identical | Inputs | Inputs |
| Assets | (Level 2) | (Level 3) |
| (Level 1) |  | $\$$ |

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. Old National recorded $\$ 10.2$ million of provision expense associated with these loans in 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 transaction 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 $\$ 108$ thousand and $\$ 635$ thousand of interest income for residential loans held for sale for the three and twelve months ended December 31, 2009, respectively. Included in the income statement are $\$ 85$ thousand and $\$ 427$ thousand of interest income for residential loans held for sale for the three and twelve months ended December 31, 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 twelve months ended December 31, 2009, respectively, for certain retail certificates of deposit. The income statement includes $\$ 430$ thousand and $\$ 1.4$ million of interest expense for the three and twelve months ended December 31, 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 since 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 since January 1, 2008. At December 31, 2009, there were no retail certificates of deposit accounted for under the fair value option.

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As of December 31, 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 was as follows. Accrued interest at period end is included in the fair value of the instruments.

|  | Aggregate |  | Contractual |  |
| :--- | :--- | :--- | :---: | :---: |
| (dollars in thousands) | Fair Value | Difference | Principal |  |
| Residential loans held for sale | $\$$ | $\mathbf{1 7 , 5 3 0}$ | $\$$ | $\mathbf{2 8 4}$ | $\mathbf{\$} \mathbf{1 7 , 2 4 6}$

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 twelve months ended December 31, 2009:

## Changes in Fair Value for the Twelve Months ended December 31, 2009, for Items <br> Measured at Fair Value Pursuant to Election of the Fair Value Option

|  |  | Total Changes <br> in Fair Values <br> Included in |
| :--- | :---: | :---: | :---: | :---: |
| Current |  |  |

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 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 twelve months ended December 31, 2008:

Changes in Fair Value for the Twelve Months ended December 31, 2008, for Items
Measured at Fair Value Pursuant to Election of the Fair Value Option Measured at Fair Value Pursuant to Election of the Fair Value Option
$\left.\begin{array}{lcccc} & & & \begin{array}{c}\text { Total Changes } \\ \text { in Fair Values }\end{array} \\ \text { Included in } \\ \text { Current }\end{array}\right]$

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

| (dollars in thousands) | Carrying <br> Value |  | Fair Value |
| :---: | :---: | :---: | :---: |
| 2009 |  |  |  |
| Financial Assets |  |  |  |
| Cash, due from banks, federal funds sold and money market investments | \$ 497,276 | \$ | 497,276 |
| Investment securities held-to-maturity | 396,009 |  | 399,953 |
| Federal Home Loan Bank stock | 36,090 |  | 36,090 |
| Finance leases held for sale | 55,260 |  | 55,449 |
| Loans, net (including impaired loans) | 3,765,938 |  | 3,975,545 |
| Accrued interest receivable | 49,340 |  | 49,340 |
| Financial Liabilities |  |  |  |
| Deposits | \$ 5,903,488 |  | 5,950,705 |
| Short-term borrowings | 331,144 |  | 331,156 |
| Other borrowings | 699,059 |  | 724,364 |
| Accrued interest payable | 12,778 |  | 12,778 |
| Standby letters of credit | 578 |  | 578 |
| Off-Balance Sheet Financial Instruments |  |  |  |
| Commitments to extend credit | \$ | \$ | 1,643 |
| 2008 |  |  |  |
| Financial Assets |  |  |  |
| 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 |
| Financial Liabilities |  |  |  |
| 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 |
| Off-Balance Sheet Financial Instruments |  |  |  |
| Commitments to extend credit | \$ | \$ | 1,614 |
| 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, resell agreements, money market investments and accrued interest: For |  |  |  |
| these instruments, the carrying amounts approximate fair value. <br> 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.

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Finance leases held for sale: The fair value of leases held for sale is estimated using discounted future cash flows. 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 18 and 19.

## NOTE 17 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 $\$ 297.5$ million and $\$ 55.1$ million at December 31, 2009 and December 31, 2008, respectively. The December 31, 2009 balances consist of $\$ 197.5$ 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 December 31, 2009, the notional amount of the interest rate lock commitments and forward commitments were $\$ 20.0$ million and $\$ 36.1$ 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 $\$ 479.8$ million and $\$ 479.8$ million, respectively, at December 31, 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.

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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:


## Derivatives not designated as hedging instruments

|  | Other |  | Other |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: |
| Interest rate contracts | liabilities | $\mathbf{\$ 1}$ | $\mathbf{2 8 , 2 7 9}$ | liabilities | $\$$ |
|  | Other | Other | 46,338 |  |  |
| Commodity contracts | liabilities | liabilities | 130 |  |  |


| Foreign exchange contracts | Other | Other |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | liabilities Other |  | 12 | liabilities Other |  | 441 |
| Mortgage contracts | liabilities |  |  | liabilities |  | 505 |
| Total derivatives not designated as hedging instruments |  | \$ | 28,291 |  | \$ | 47,414 |
| Total derivatives |  | \$ | 29,479 |  | \$ | 47,414 |

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The effect of derivative instruments on the Consolidated Statement of Income for the twelve months ended December 31, 2009 and 2008 are as follows:

| (dollars in thousands) | Location of Gain or (Loss) | Year ended December 31, 2009 |  | $\begin{gathered} \text { Year ended } \\ \text { December 31, } \\ 2008 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Amount of Gain or (Loss) |  |  |  |
| Derivatives in Fair Value Hedging Relationships | Recognized in Income on Derivative | Recognized in Income on Derivative |  |  |  |
| Interest rate contracts (1) | Interest income / (expense) | \$ | 1,995 | \$ | 472 |
| Interest rate contracts (2) | Other income / (expense) |  | 998 |  | 160 |
| Total |  | \$ | 2,993 | \$ | 632 |
|  | Location of Gain or (Loss) | Amount of Gain or (Loss) |  |  |  |
| Derivatives in Cash Flow Hedging Relationships | Recognized in Income on Derivative | Recognized in Income on Derivative |  |  |  |
| Interest rate contracts (1) | Interest income / (expense) | \$ | 1,259 | \$ |  |
| Total |  | \$ | 1,259 | \$ |  |
|  | Location of Gain or (Loss) | Amount of Gain or (Loss) |  |  |  |
| Derivatives Not Designated as Hedging Instruments | Recognized in Income on Derivative | Recognized in Income on Derivative |  |  |  |
| Interest rate contracts (1) | Interest income / (expense) | \$ | (428) | \$ | 549 |
| Interest rate contracts (3) | Other income / (expense) |  | (280) |  | $(1,305)$ |
| Mortgage contracts | Mortgage banking revenue |  | 416 |  | (63) |
| Total |  | \$ | (292) | \$ | (819) |

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

Amounts represent ineffectiveness on derivatives designated as fair value hedges.

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 16 to the consolidated financial statements.

## NOTE 18 COMMITMENTS AND CONTINGENCIES

## LITIGATION

In the normal course of business, Old National and its subsidiaries have been named, from time to time, as defendants in various legal actions. Certain of the actual or threatened legal actions 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 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.

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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 permitted Old National to file a new motion for summary judgment with respect to issues that had not been resolved by the Court. On December 10, 2009, the Court granted Old National partial summary judgment and also granted a motion by Plaintiffs to amend their complaint. The Court s December 10, 2009 Order permits Old National to file a new motion for summary judgment on the amended complaint. Old National filed its motion for summary judgment on January 22, 2010. The briefing schedule on the motion is now complete and it is 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.

## LEASES

Old National rents certain premises and equipment under operating leases, which expire at various dates. Many of these leases require the payment of property taxes, insurance premiums, maintenance and other costs. In some cases, rentals are subject to increase in relation to a cost-of-living index.
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 20 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 five financial centers in sale leaseback transactions to unrelated parties. Old National received cash proceeds of $\$ 10.6$ million, net of selling costs. The properties sold had a carrying value of $\$ 9.2$ million. The $\$ 1.4$ 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 $\$ 1.0$ 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 closed or merged 11 of these locations into existing branch locations during 2009. The leases have term of less than one year to ten years. Under the remaining lease agreements, Old National is obligated to pay a base rent of approximately $\$ 2.5$ million per year.

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Total rental expense was $\$ 29.7$ million in 2009, $\$ 26.5$ million in 2008 and $\$ 14.5$ million in 2007. The following is a summary of future minimum lease commitments as of December 31, 2008:

## (dollars in thousands)

## 2014

## 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 $\$ 1.038$ billion and standby letters of credit of $\$ 103.2$ million at December 31, 2009. At December 31, 2009, approximately $\$ 992$ million of the loan commitments had fixed rates and $\$ 46$ 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 December 31, 2009 and 2008, the balance of the allowance for credit losses on unfunded loan commitments was $\$ 5.5$ million and $\$ 3.5$ million, respectively.
At December 31, 2009 and 2008, Old National had credit extensions of $\$ 25.9$ 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 December 31, 2009 and 2008, the unsecured portion was $\$ 3.1$ million and $\$ 4.0$ million respectively.

## NOTE 19 FINANCIAL GUARANTEES

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At December 31, 2009, the notional amount of standby letters of credit was $\$ 103.2$ million, which represents the maximum amount of future funding requirements, and the carrying value was $\$ 0.6$ million. At December 31, 2008, the notional amount of standby letters of credit was $\$ 108.4$ million, which represents the maximum amount of future funding requirements, and the carrying value was $\$ 0.5$ 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 $\$ 9.2$ million at December 31, 2009.

## NOTE 20 REGULATORY RESTRICTIONS

## RESTRICTIONS ON CASH AND DUE FROM BANKS

Old National s affiliate bank is required to maintain reserve balances on hand and with the Federal Reserve Bank which are interest bearing and unavailable for investment purposes. The reserve balances at December 31 were $\$ 28.8$ million in 2009 and $\$ 47.5$ million in 2008. In addition, Old National had $\$ 9.8$ million in cash and due from banks which was held as collateral for collateralized swap positions as of December 31, 2009 and 2008.

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## RESTRICTIONS ON TRANSFERS FROM AFFILIATE BANK

Regulations limit the amount of dividends an affiliate bank can declare in any year without obtaining prior regulatory 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, Old National Bank had received regulatory approval to declare a dividend up to $\$ 76$ million in the first quarter of 2007. Old National used the cash obtained from the dividend to fund its purchase of St. Joseph Capital Corporation during the first quarter of 2007 and during the first quarter of 2009 received permission to pay a $\$ 40$ million dividend to repurchase the $\$ 100$ million of non-voting preferred shares from the U.S. Treasury. As a result of these special dividends, Old National Bank requires approval of regulatory authority for the payment of dividends to Old National. Such approval was obtained for the payment of dividends during 2009 and currently.

## RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

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. Additionally, the payment of dividends to the preferred shareholders in 2009 had priority over the payment of cash dividends to the common stockholders. On March 31, 2009, Old National repurchased all of the \$100 million of Series T Preferred Stock from the Treasury Department.
CAPITAL ADEQUACY
Old National and Old National Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can elicit certain mandatory actions by regulators that, if undertaken, could have a direct material effect on Old National s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Old National and Old National Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Quantitative measures established by regulation to ensure capital adequacy require Old National and Old National Bank to maintain minimum amounts and ratios as set forth in the following table.
At December 31, 2009, Old National and Old National Bank exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory notification. To be categorized as well-capitalized, Old National Bank must maintain minimum total risk-based, Tier 1 risked-based and Tier 1 leverage ratios. There are no conditions or events since that notification that management believes have changed the institution s category.

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The following table summarizes capital ratios for Old National and Old National Bank as of December 31:

| (dollars in thousands) | Actual |  | For Capital <br> Adequacy Purposes |  | For WellCapitalized Purposes |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| 2009 |  |  |  |  |  |  |
| Total capital to risk-weighted assets |  |  |  |  |  |  |
| Old National Bancorp | \$ 832,096 | 16.09\% | \$ 413,848 | 8.00\% | \$ N/A | N/A \% |
| Old National Bank | 619,864 | 12.21 | 406,224 | 8.00 | 507,780 | 10.00 |
| Tier 1 capital to risk-weighted |  |  |  |  |  |  |
| Old National Bancorp | 737,224 | 14.25 | 206,924 | 4.00 | N/A | N/A |
| Old National Bank | 526,168 | 10.36 | 203,112 | 4.00 | 304,668 | 6.00 |
| Tier 1 capital to average assets |  |  |  |  |  |  |
| Old National Bancorp | 737,224 | 9.51 | 310,210 | 4.00 | N/A | N/A |
| Old National Bank | 526,168 | 6.97 | 226,522 | 3.00 | 377,536 | 5.00 |
| 2008 |  |  |  |  |  |  |
| Total capital to risk-weighted assets |  |  |  |  |  |  |
| Old National Bancorp | \$ 836,759 | 15.06\% | \$ 444,413 | 8.00\% | \$ N/A | N/A \% |
| Old National Bank | 732,318 | 13.41 | 436,732 | 8.00 | 545,915 | 10.00 |
| Tier 1 capital to risk-weightedassets |  |  |  |  |  |  |
| Old National Bancorp | 707,304 | 12.73 | 222,207 | 4.00 | N/A | N/A |
| Old National Bank | 604,051 | 11.06 | 218,366 | 4.00 | 327,549 | 6.00 |
| Tier 1 capital to average assets |  |  |  |  |  |  |
| Old National Bancorp | 707,304 | 9.50 | 297,859 | 4.00 | N/A | N/A |
| Old National Bank | 604,051 | 8.21 | 220,698 | 3.00 | 367,830 | 5.00 |

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## NOTE 21 PARENT COMPANY FINANCIAL STATEMENTS

The following are the condensed parent company only financial statements of Old National Bancorp:
OLD NATIONAL BANCORP (PARENT COMPANY ONLY) CONDENSED BALANCE SHEETS

| (dollars in thousands) | December 31, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2009 |  | 2008 |  |
| Assets |  |  |  |  |
| Deposits in affiliate bank | \$ | 22,111 | \$ | 22,807 |
| Investment securities available for sale |  | 445 |  | 296 |
| Investment in affiliates: |  |  |  |  |
| Banking subsidiaries |  | 661,272 |  | 684,597 |
| Non-banks |  | 47,762 |  | 60,783 |
| Advances to affiliates |  | 196,029 |  | 50,039 |
| Other assets |  | 95,451 |  | 89,070 |
| Total assets |  | ,023,070 | \$ | 907,592 |
| Liabilities and Shareholders Equity |  |  |  |  |
| Other liabilities | \$ | 21,970 | \$ | 19,498 |
| Other borrowings |  | 157,274 |  | 157,229 |
| Shareholders equity |  | 843,826 |  | 730,865 |
| Total liabilities and shareholders equity |  | ,023,070 | \$ | 907,592 |
| OLD NATIONAL BANCORP (PARENT COMPANY ONLY) CONDENSED STATEMENTS OF INCOME |  |  |  |  |


|  | Years Ended December 31, |  |  |  |
| :--- | ---: | ---: | ---: | ---: |
| (dollars in thousands) | $\mathbf{2 0 0 9}$ | $\mathbf{2 0 0 8}$ | $\mathbf{2 0 0 7}$ |  |
| Income |  |  |  |  |
| Dividends from affiliates | $\mathbf{9 4 , 9 5 8}$ | $\$$ | 92,700 | $\$ 153,000$ |
| Net securities gains | $\mathbf{6 6 6}$ |  |  |  |
| Other income | $\mathbf{6 4 7}$ | 2,493 | 2,685 |  |
| Other income from affiliates | $\mathbf{8 6 9}$ | 92 | 29,796 |  |
| Total income | $\mathbf{9 7 , 1 4 0}$ | 95,285 | 185,481 |  |
| Expense |  |  |  |  |
| Interest on borrowings | $\mathbf{1 1 , 6 1 8}$ | 15,331 | 18,025 |  |
| Other expenses | $\mathbf{1 0 , 2 2 2}$ | 7,798 | 37,608 |  |
|  | $\mathbf{2 1 , 8 4 0}$ | 23,129 | 55,633 |  |
| Total expense |  |  |  |  |
| Income before income taxes and equity in undistributed earnings of | $\mathbf{7 5 , 3 0 0}$ | 72,156 | 129,848 |  |
| affiliates | $\mathbf{8 , 0 6 3}$ | $(9,358)$ | $(10,486)$ |  |
| Income tax benefit | $\mathbf{8 3 , 3 6 3}$ | 81,514 | 140,334 |  |

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| Dividends receivable from affiliates in excess of earnings |  | $(\mathbf{6 9 , 6 2 6})$ |  | $(19,036)$ |  | $(65,444)$ |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net Income | $\$$ | $\mathbf{1 3 , 7 3 7}$ | $\$$ | 62,478 | $\$$ | 74,890 |

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## OLD NATIONAL BANCORP (PARENT COMPANY ONLY)

 CONDENSED STATEMENT OF CASH FLOWS| (dollars in thousands) | Years Ended December 31, |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2009 |  | 2008 |  | 2007 |  |
| Cash Flows From Operating Activities |  |  |  |  |  |  |
| Net income | \$ | 13,737 | \$ | 62,478 | \$ | 74,890 |
| Adjustments to reconcile net income to cash provided by operating activities: |  |  |  |  |  |  |
| Depreciation |  | 67 |  | 106 |  | 113 |
| Net premium (discount) on investment securities |  | 434 |  |  |  |  |
| Net securities (gains) losses |  | (663) |  |  |  |  |
| Stock option expense |  | 392 |  | 407 |  | 298 |
| Restricted stock expense (benefit) |  | 918 |  | 1,597 |  | 1,292 |
| Net losses on sales and write-downs of premises and equipment |  |  |  |  |  | 311 |
| (Increase) decrease in other assets |  | $(6,302)$ |  | $(6,479)$ |  | $(9,296)$ |
| (Decrease) increase in other liabilities |  | 2,450 |  | (504) |  | 15,740 |
| Dividends received from affiliates in excess of earnings |  | 69,626 |  | 19,036 |  | 65,444 |
| Total adjustments |  | 66,922 |  | 14,163 |  | 73,902 |
| Net cash flows provided by operating activities |  | 80,659 |  | 76,641 |  | 148,792 |
| Cash Flows From Investing Activities |  |  |  |  |  |  |
| Cash and cash equivalents of subsidiaries acquired, net |  |  |  |  |  | 469 |
| Purchases and adjustments to purchase prices of subsidiaries |  |  |  |  |  | $(78,109)$ |
| Purchases of investment securities available-for-sale |  | $(191,994)$ |  | (296) |  |  |
| Proceeds from sales of investment securities available-for-sale |  | 192,222 |  |  |  |  |
| Net payments from (advances to) affiliates |  | $(145,989)$ |  | $(50,039)$ |  |  |
| Proceeds from sales of premises and equipment |  |  |  |  |  | 4 |
| Purchases of premises and equipment |  |  |  | (82) |  | (253) |
| Net cash flows provided by (used in) investing activities |  | $(145,761)$ |  | $(50,417)$ |  | $(77,889)$ |
| Cash Flows From Financing Activities |  |  |  |  |  |  |
| Payments for maturities on other borrowings |  |  |  | $(100,000)$ |  | $(10,000)$ |
| Cash dividends paid on common stock |  | $(30,380)$ |  | $(60,801)$ |  | $(57,782)$ |
| Cash dividends paid on preferred stock |  | $(1,514)$ |  |  |  |  |
| Common stock repurchased |  | (353) |  | (457) |  | $(4,102)$ |
| Proceeds from issuance of TARP preferred stock and warrants |  |  |  | 99,885 |  |  |
| Repurchase of TARP preferred stock and warrants |  | $(101,200)$ |  |  |  |  |
| Common stock reissued under stock option, restricted stock and stock purchase plans |  | 97 |  | 1,940 |  | 231 |
| Common stock issued |  | 197,756 |  |  |  |  |
| Net cash flows provided by (used in) financing activities |  | 64,406 |  | $(59,433)$ |  | $(71,653)$ |
| Net increase (decrease) in cash and cash equivalents |  | (696) |  | $(33,209)$ |  | (750) |

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| Cash and cash equivalents at beginning of period |  | $\mathbf{2 2 , 8 0 7}$ |  | 56,016 |  | 56,766 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Cash and cash equivalents at end of period | $\mathbf{\$}$ | $\mathbf{2 2 , 1 1 1}$ | $\$$ | 22,807 | $\$$ | 56,016 |

## NOTE 22 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.

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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.
Summarized financial information concerning segments is shown in the following table for the years ended December 31.

## SEGMENT INFORMATION

| (dollars in thousands) | Community Banking |  | Treasury |  | Other |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2009 |  |  |  |  |  |  |  |  |
| Net interest income | \$ | 287,404 | \$ | $(47,490)$ | \$ | $(8,515)$ | \$ | 231,399 |
| Provision for loan losses |  | 63,284 |  | 126 |  | (130) |  | 63,280 |
| Noninterest income |  | 94,132 |  | 5,422 |  | 63,906 |  | 163,460 |
| Noninterest expense |  | 270,249 |  | 7,878 |  | 60,829 |  | 338,956 |
| Income (loss) before income taxes |  | 48,003 |  | $(50,072)$ |  | $(5,308)$ |  | $(7,377)$ |
| Total assets |  | 4,487,007 |  | 3,401,958 |  | 116,370 |  | 8,005,335 |
| 2008 |  |  |  |  |  |  |  |  |
| Net interest income | \$ | 259,009 | \$ | $(13,337)$ | \$ | $(2,347)$ | \$ | 243,325 |
| Provision for loan losses |  | 51,024 |  | 440 |  |  |  | 51,464 |
| Noninterest income |  | 83,181 |  | 14,918 |  | 68,870 |  | 166,969 |
| Noninterest expense |  | 226,272 |  | 3,498 |  | 67,459 |  | 297,229 |
| Income (loss) before income taxes |  | 64,894 |  | $(2,357)$ |  | (936) |  | 61,601 |
| Total assets |  | 4,959,736 |  | 2,802,889 |  | 111,265 |  | 7,873,890 |
| 2007 |  |  |  |  |  |  |  |  |
| Net interest income | \$ | 234,637 | \$ | $(12,784)$ | \$ | $(2,662)$ | \$ | 219,191 |
| Provision for loan losses |  | 3,492 |  | 626 |  |  |  | 4,118 |
| Noninterest income |  | 80,328 |  | 5,815 |  | 68,995 |  | 155,138 |
| Noninterest expense |  | 207,006 |  | 4,518 |  | 66,474 |  | 277,998 |
| Income (loss) before income taxes |  | 104,467 |  | $(12,113)$ |  | (141) |  | 92,213 |
| Total assets |  | 4,968,665 |  | 2,756,899 |  | 120,562 |  | 7,846,126 |

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## NOTE 23 INTERIM FINANCIAL DATA (UNAUDITED)

The following table details the quarterly results of operations for the years ended December 31, 2009 and 2008. INTERIM FINANCIAL DATA

| (unaudited, dollars and shares in thousands, | Quarters Ended 2009 |  |  |  | Quarters Ended 2008 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | December | September | June | March | December | September | June | March |
| except per share data) | 31 | 30 | 30 | 31 | 31 | 30 | 30 | 31 |
| Interest income | \$ 80,090 | \$ 83,422 | \$89,182 | \$87,983 | \$ 95,344 | \$ 95,679 | \$ 97,365 | \$ 104,134 |
| Interest expense | 25,067 | 27,011 | 28,415 | 28,785 | 32,749 | 36,083 | 36,021 | 44,344 |
| Net interest income | 55,023 | 56,411 | 60,767 | 59,198 | 62,595 | 59,596 | 61,344 | 59,790 |
| Provision for loan losses | 21,821 | 12,191 | 11,968 | 17,300 | 17,017 | 6,842 | 5,700 | 21,905 |
| Noninterest income | 36,616 | 39,003 | 45,606 | 42,235 | 37,585 | 38,995 | 43,513 | 46,876 |
| Noninterest expense | 90,775 | 83,966 | 86,751 | 77,464 | 78,996 | 72,463 | 74,834 | 70,936 |
| Income (loss) before income taxes | $(20,957)$ | (743) | 7,654 | 6,669 | 4,167 | 19,286 | 24,323 | 13,825 |
| Income tax expense (benefit) | $(11,637)$ | $(4,760)$ | $(1,981)$ | $(2,736)$ | $(2,481)$ | 2,271 | 4,848 | (5,515 |
| Net income (loss) | $(9,320)$ | 4,017 | 9,635 | 9,405 | 6,648 | 17,015 | 19,475 | 19,340 |
| Preferred stock dividends and discount accretion |  |  |  | $(3,892)$ | (298) |  |  |  |

Net income
(loss) attributable to common stockholders

Net income (loss) per
share :

| Basic | $\mathbf{( 0 . 1 1 )}$ | $\mathbf{\$}$ | $\mathbf{0 . 0 6}$ | $\mathbf{\$}$ | $\mathbf{0 . 1 5}$ | $\mathbf{\$}$ | $\mathbf{0 . 0 8}$ | $\$$ | 0.10 | $\$$ | 0.26 | $\$$ | 0.30 | $\$$ | 0.29 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Diluted | $\mathbf{( 0 . 1 1 )}$ |  | $\mathbf{0 . 0 6}$ |  | $\mathbf{0 . 1 5}$ |  | $\mathbf{0 . 0 8}$ |  | 0.10 |  | 0.26 |  | 0.30 |  | 0.29 |

Average shares

| Basic | $\mathbf{8 6 , 7 0 1}$ | $\mathbf{6 6 , 6 3 5}$ | $\mathbf{6 5 , 9 5 0}$ | $\mathbf{6 5 , 7 9 3}$ | 65,730 | 65,645 | 65,640 | 65,623 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Diluted | $\mathbf{8 6 , 7 0 1}$ | $\mathbf{6 6 , 7 0 6}$ | $\mathbf{6 5 , 9 9 9}$ | $\mathbf{6 5 , 8 8 2}$ | 65,922 | 65,790 | 65,812 | 65,754 |

The higher provision for loan losses in 2009 is primarily attributable to the increase in net charge-offs. During the fourth quarter of 2009 we recorded a charge-off of $\$ 12.0$ million related to a single commercial loan.
Noninterest expense increased in 2009 primarily due to expenses associated with the 65 Citizens Financial branches acquired in March 2009 as well as the increase in FDIC insurance expense. Income taxes decreased in 2009 because tax-exempt income comprised a higher percentage of total income and pre-tax income was lower than in 2008.

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## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

## ITEM 9A. 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-14(c) 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 annual report on Form 10-K, 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 judgments in decision-making can be faulty, and that breakdowns can occur because of 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.
Refer to Item 8 for Management s Report on Internal Control over Financial Reporting.

## ITEM 9B. OTHER INFORMATION

None.

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## PART III <br> ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2009. The applicable information appearing in the Proxy Statement for the 2010 annual meeting is incorporated by reference.
Old National has adopted a code of ethics that applies to directors, officers, and all other employees including Old National s principal executive officer, principal financial officer and principal accounting officer. The text of the code of ethics is available on Old National s Internet website at www.oldnational.com or in print to any shareholder who requests it. Old National intends to post information regarding any amendments to, or waivers from, its code of ethics on its Internet website.

## ITEM 11. EXECUTIVE COMPENSATION

This information is omitted from this report pursuant to General Instruction G.(3) of Form $10-\mathrm{K}$ as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2009. The applicable information appearing in our Proxy Statement for the 2010 annual meeting is incorporated by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

This information is omitted from this report, (with the exception of the Equity Compensation Plan Information , which is reported in Item 5 of this report and is incorporated herein by reference) pursuant to General Instruction G.(3) of Form $10-\mathrm{K}$ as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2009. The applicable information appearing in the Proxy Statement for the 2010 annual meeting is incorporated by reference.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2009. The applicable information appearing in the Proxy Statement for the 2010 annual meeting is incorporated by reference.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

This information is omitted from this report pursuant to General Instruction G.(3) of Form $10-\mathrm{K}$ as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2009. The applicable information appearing in the Proxy Statement for the 2010 annual meeting is incorporated by reference.

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## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements:

The following consolidated financial statements of the registrant and its subsidiaries are filed as part of this document under Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm Consolidated Balance Sheets December 31, 2009 and 2008 Consolidated Statements of Income Years Ended December 31, 2009, 2008 and 2007 Consolidated Statements of Changes in Shareholders Equity Years Ended December 31, 2009, 2008 and 2007 Consolidated Statements of Cash Flows Years Ended December 31, 2009, 2008 and 2007 Notes to Consolidated Financial Statements
2. Financial Statement Schedules

The schedules for Old National and its subsidiaries are omitted because of the absence of conditions under which they are required, or because the information is set forth in the consolidated financial statements or the notes thereto.

## 3. Exhibits

The exhibits filed as part of this report and exhibits incorporated herein by reference to other documents are as follows:

Exhibit
Number
2
Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession
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(i) Articles of Incorporation of Old National, amended December 10, 2008 (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 December 12, 2008).

3(ii) 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).

Instruments defining rights of security holders, including indentures
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, N.A.)), 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).

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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).

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Exhibit
Number
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).

Material contracts
(a) 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).*
(b) 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).*
(c) 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).*
(d) 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).*
(e) 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).*
(f) 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).*
(g) 2005 Executive Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit $10(\mathrm{~g})$ of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
(h) 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).*

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(i) 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).*
(j) 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).*
(k) 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).*

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## Exhibit

Number
(1) 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).*
(m) 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).*
(n) 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).*
(o) 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).*
(p) 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).
(q) 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).
(r) Lease Agreement, dated December 20, 2006 between ONB $4^{\text {th }}$ 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).
(s) 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).
(t) 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).
(u) 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).
(v) 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).

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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).
(x) 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).

## Exhibit

Number
(y) 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).
(z) 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).
(aa) 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).*
(ab) 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).*
(ac) 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).*
(ad) 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).*
(ae) 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).*
(af) 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).*
(ag) 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).
(ah) 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).
(ai) 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).*
(aj) 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).*
(ak) 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).*
(al) 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).*

Exhibit

Number
(am) 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).
(an) 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).
(ao) 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).
(ap) 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).
(aq) 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).
(ar) 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).
(as) Form of 2010 Performance Share Award Agreement Internal Performance Measures between Old National and certain key associates is filed herewith.*
(at) Form of 2010 Performance Share Award Agreement Relative Performance Measures between Old National and certain key associates is filed herewith.*
(au) Form of 2010 Service Based Restricted Stock Award Agreement between Old National and certain key associates is filed herewith.*

21 Subsidiaries of Old National Bancorp
23.1 Consent of Crowe Horwath LLP
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


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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Old National has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

## OLD NATIONAL BANCORP

By: /s/ Robert G. Jones
Date: February 26, 2010

Robert G. Jones,
President and Chief Executive Officer
(Principal Executive Officer)
Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 26, 2010, by the following persons on behalf of Old National and in the capacities indicated.

By: /s/ Joseph D. Barnette, Jr.

Joseph D. Barnette, Jr., Director

By: /s/ Alan W. Braun

Alan W. Braun, Director
By: /s/ Larry E. Dunigan

Larry E. Dunigan,
Chairman of the Board of Directors

By: /s/ Arthur H. McElwee Jr.
Arthur H. McElwee Jr., Director

By: /s/ Niel C. Ellerbrook

Niel C. Ellerbrook, Director

By: /s/ Andrew E. Goebel

Andrew E. Goebel, Director

By: /s/ Robert G. Jones

Robert G. Jones, President and Chief Executive Officer (Principal Executive Officer)

By: /s/ Marjorie Z. Soyugenc

Marjorie Z. Soyugenc, Director

By: /s/ Kelly N. Stanley

Kelly N. Stanley, Director

By: /s/ Linda E. White
Linda E. White, Director

By: /s/ Christopher A. Wolking

Christopher A. Wolking,
Senior Executive Vice President
Financial Officer (Principal Financial Officer)

By: /s/ Joan M. Kissel

Joan M. Kissel,
Senior Vice President and Corporate Controller
(Principal Accounting Officer)

By: /s/ Phelps L. Lambert
Phelps L. Lambert, Director

