

OLD NATIONAL BANCORP /IN/

Form 10-Q

November 05, 2010

**Table of Contents**

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2010**

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

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

**OLD NATIONAL BANCORP**

(Exact name of Registrant as specified in its charter)

**INDIANA**

(State or other jurisdiction of  
incorporation or organization)

**35-1539838**

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

**One Main Street  
Evansville, Indiana**

(Address of principal executive offices)

**47708**

(Zip Code)

**(812) 464-1294**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller  
reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock. The Registrant has one class of common stock (no par value) with 87,177,000 shares outstanding at October 29, 2010.



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

Page No.

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Consolidated Balance Sheets September 30, 2010 (unaudited), December 31, 2009 and September 30, 2009 (unaudited) 3

Consolidated Statements of Income (unaudited) Three and nine months ended September 30, 2010 and 2009 4

Consolidated Statements of Changes in Shareholders' Equity (unaudited) Nine months ended September 30, 2010 and 2009 5

Consolidated Statements of Cash Flows (unaudited) Nine months ended September 30, 2010 and 2009 6

Notes to Consolidated Financial Statements (unaudited) 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 40

Item 3. Quantitative and Qualitative Disclosures About Market Risk 63

Item 4. Controls and Procedures 63

**PART II OTHER INFORMATION** 64

**SIGNATURES** 70

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

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

|                                                                                                                        | <b>September<br/>30,<br/>2010<br/>(unaudited)</b> | <b>December<br/>31,<br/>2009</b> | <b>September<br/>30,<br/>2009<br/>(unaudited)</b> |
|------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|----------------------------------|---------------------------------------------------|
| (dollars and shares in thousands, except per share data)                                                               |                                                   |                                  |                                                   |
| <b>Assets</b>                                                                                                          |                                                   |                                  |                                                   |
| Cash and due from banks                                                                                                | \$ 129,169                                        | \$ 144,156                       | \$ 114,975                                        |
| Money market and other interest-earning investments                                                                    | 43,102                                            | 353,120                          | 110,753                                           |
| Total cash and cash equivalents                                                                                        | 172,271                                           | 497,276                          | 225,728                                           |
| Investment securities available-for-sale, at fair value                                                                |                                                   |                                  |                                                   |
| U.S. Treasury                                                                                                          | 51,814                                            | 1,003                            | 101,359                                           |
| U.S. Government-sponsored entities and agencies                                                                        | 538,148                                           | 914,237                          | 975,737                                           |
| Mortgage-backed securities                                                                                             | 1,102,758                                         | 882,726                          | 868,331                                           |
| States and political subdivisions                                                                                      | 336,993                                           | 534,595                          | 494,153                                           |
| Other securities                                                                                                       | 161,091                                           | 153,658                          | 178,871                                           |
| Investment securities available-for-sale                                                                               | 2,190,804                                         | 2,486,219                        | 2,618,451                                         |
| Investment securities held-to-maturity, at amortized cost (fair value \$770,688, \$399,953 and \$313,272 respectively) | 753,835                                           | 396,009                          | 305,902                                           |
| Federal Home Loan Bank stock, at cost                                                                                  | 36,090                                            | 36,090                           | 36,090                                            |
| Residential loans held for sale, at fair value                                                                         | 3,512                                             | 17,530                           | 11,365                                            |
| Finance leases held for sale                                                                                           |                                                   | 55,260                           | 58,394                                            |
| Loans:                                                                                                                 |                                                   |                                  |                                                   |
| Commercial                                                                                                             | 1,266,893                                         | 1,287,168                        | 1,396,997                                         |
| Commercial real estate                                                                                                 | 981,524                                           | 1,062,910                        | 1,091,494                                         |
| Residential real estate                                                                                                | 482,967                                           | 403,391                          | 421,666                                           |
| Consumer credit, net of unearned income                                                                                | 971,756                                           | 1,082,017                        | 1,125,509                                         |
| Total loans                                                                                                            | 3,703,140                                         | 3,835,486                        | 4,035,666                                         |
| Allowance for loan losses                                                                                              | (72,149)                                          | (69,548)                         | (69,551)                                          |
| Net loans                                                                                                              | 3,630,991                                         | 3,765,938                        | 3,966,115                                         |
| Premises and equipment, net                                                                                            | 50,057                                            | 52,399                           | 56,539                                            |
| Accrued interest receivable                                                                                            | 44,376                                            | 49,340                           | 45,281                                            |
| Goodwill                                                                                                               | 167,884                                           | 167,884                          | 167,884                                           |
| Other intangible assets                                                                                                | 27,681                                            | 32,307                           | 34,487                                            |
| Company-owned life insurance                                                                                           | 225,985                                           | 224,652                          | 223,902                                           |
| Other assets                                                                                                           | 202,628                                           | 224,431                          | 223,354                                           |
| Total assets                                                                                                           | \$ 7,506,114                                      | \$ 8,005,335                     | \$ 7,973,492                                      |
| <b>Liabilities</b>                                                                                                     |                                                   |                                  |                                                   |
| Deposits:                                                                                                              |                                                   |                                  |                                                   |
| Noninterest-bearing demand                                                                                             | \$ 1,267,404                                      | \$ 1,188,343                     | \$ 1,045,910                                      |

|                                                                                                                                  |                         |                  |                  |
|----------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------|------------------|
| Interest-bearing:                                                                                                                |                         |                  |                  |
| NOW                                                                                                                              | <b>1,163,610</b>        | 1,354,337        | 1,220,224        |
| Savings                                                                                                                          | <b>1,046,011</b>        | 972,176          | 971,459          |
| Money market                                                                                                                     | <b>344,297</b>          | 381,078          | 418,841          |
| Time                                                                                                                             | <b>1,618,115</b>        | 2,007,554        | 2,037,921        |
| <br>Total deposits                                                                                                               | <br><b>5,439,437</b>    | <br>5,903,488    | <br>5,694,355    |
| Short-term borrowings                                                                                                            | <b>367,761</b>          | 331,144          | 326,076          |
| Other borrowings                                                                                                                 | <b>578,282</b>          | 699,059          | 808,611          |
| Accrued expenses and other liabilities                                                                                           | <b>224,950</b>          | 227,818          | 279,037          |
| <br>Total liabilities                                                                                                            | <br><b>6,610,430</b>    | <br>7,161,509    | <br>7,108,079    |
| <br><b>Shareholders' Equity</b>                                                                                                  |                         |                  |                  |
| Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding                                              |                         |                  |                  |
| Common stock, \$1 stated value, 150,000 shares authorized, 87,172, 87,182 and 87,173 shares issued and outstanding, respectively | <b>87,172</b>           | 87,182           | 87,173           |
| Capital surplus                                                                                                                  | <b>748,292</b>          | 746,775          | 747,582          |
| Retained earnings                                                                                                                | <b>44,404</b>           | 30,235           | 45,542           |
| Accumulated other comprehensive income (loss), net of tax                                                                        | <b>15,816</b>           | (20,366)         | (14,884)         |
| <br>Total shareholders' equity                                                                                                   | <br><b>895,684</b>      | <br>843,826      | <br>865,413      |
| <br>Total liabilities and shareholders' equity                                                                                   | <br><b>\$ 7,506,114</b> | <br>\$ 8,005,335 | <br>\$ 7,973,492 |

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

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

|                                                     | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                                     | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| (dollars in thousands, except per share data)       |                                             |             |                                            |             |
| <b>Interest Income</b>                              |                                             |             |                                            |             |
| Loans including fees:                               |                                             |             |                                            |             |
| Taxable                                             | \$ 43,635                                   | \$ 49,365   | \$ 132,416                                 | \$ 151,322  |
| Nontaxable                                          | 2,479                                       | 4,709       | 7,145                                      | 16,414      |
| Investment securities, available-for-sale:          |                                             |             |                                            |             |
| Taxable                                             | 16,470                                      | 20,418      | 57,021                                     | 69,316      |
| Nontaxable                                          | 3,620                                       | 5,588       | 12,700                                     | 17,106      |
| Investment securities, held-to-maturity, taxable    | 6,671                                       | 3,315       | 16,230                                     | 6,304       |
| Money market investments and federal funds sold     | 70                                          | 27          | 371                                        | 125         |
| Total interest income                               | 72,945                                      | 83,422      | 225,883                                    | 260,587     |
| <b>Interest Expense</b>                             |                                             |             |                                            |             |
| Deposits                                            | 11,428                                      | 16,643      | 37,971                                     | 52,092      |
| Short-term borrowings                               | 132                                         | 312         | 527                                        | 1,148       |
| Other borrowings                                    | 7,217                                       | 10,056      | 22,946                                     | 30,971      |
| Total interest expense                              | 18,777                                      | 27,011      | 61,444                                     | 84,211      |
| Net interest income                                 | 54,168                                      | 56,411      | 164,439                                    | 176,376     |
| Provision for loan losses                           | 6,400                                       | 12,191      | 23,681                                     | 41,459      |
| Net interest income after provision for loan losses | 47,768                                      | 44,220      | 140,758                                    | 134,917     |
| <b>Noninterest Income</b>                           |                                             |             |                                            |             |
| Wealth management fees                              | 3,847                                       | 3,852       | 12,097                                     | 11,937      |
| Service charges on deposit accounts                 | 12,411                                      | 15,068      | 37,507                                     | 41,432      |
| ATM fees                                            | 5,821                                       | 5,421       | 17,278                                     | 14,972      |
| Mortgage banking revenue                            | 644                                         | 1,515       | 1,765                                      | 5,007       |
| Insurance premiums and commissions                  | 8,691                                       | 8,785       | 27,809                                     | 29,103      |
| Investment product fees                             | 2,325                                       | 2,372       | 6,613                                      | 6,861       |
| Company-owned life insurance                        | 1,034                                       | 488         | 3,059                                      | 1,604       |
| Net securities gains                                | 3,281                                       | 5,102       | 12,792                                     | 20,974      |
| Total other-than-temporary impairment losses        | (39)                                        | (8,983)     | (6,431)                                    | (32,716)    |
| Loss recognized in other comprehensive income       |                                             | 3,921       | 3,123                                      | 17,399      |
| Impairment losses recognized in earnings            | (39)                                        | (5,062)     | (3,308)                                    | (15,317)    |
| Gain (loss) on derivatives                          | 370                                         | (675)       | 1,386                                      | 324         |
| Gain on sale leaseback transactions                 | 1,636                                       | 1,667       | 4,815                                      | 4,724       |
| Other income                                        | 1,958                                       | 470         | 6,132                                      | 5,223       |
| Total noninterest income                            | 41,979                                      | 39,003      | 127,945                                    | 126,844     |

**Noninterest Expense**

|                                                              |                  |                 |                  |                  |
|--------------------------------------------------------------|------------------|-----------------|------------------|------------------|
| Salaries and employee benefits                               | <b>41,696</b>    | 46,502          | <b>125,214</b>   | 134,407          |
| Occupancy                                                    | <b>11,723</b>    | 12,029          | <b>35,781</b>    | 34,671           |
| Equipment                                                    | <b>2,623</b>     | 2,930           | <b>8,049</b>     | 7,918            |
| Marketing                                                    | <b>1,527</b>     | 2,290           | <b>4,274</b>     | 6,904            |
| Data processing                                              | <b>5,124</b>     | 5,322           | <b>16,273</b>    | 15,566           |
| Communication                                                | <b>2,329</b>     | 2,723           | <b>7,489</b>     | 8,143            |
| Professional fees                                            | <b>1,600</b>     | 2,062           | <b>5,477</b>     | 6,812            |
| Loan expense                                                 | <b>980</b>       | 1,175           | <b>2,996</b>     | 3,201            |
| Supplies                                                     | <b>710</b>       | 891             | <b>2,179</b>     | 3,375            |
| FDIC assessment                                              | <b>2,077</b>     | 1,763           | <b>6,201</b>     | 10,188           |
| Amortization of intangibles                                  | <b>1,501</b>     | 1,662           | <b>4,627</b>     | 4,328            |
| Other expense                                                | <b>4,212</b>     | 4,617           | <b>12,473</b>    | 12,668           |
| Total noninterest expense                                    | <b>76,102</b>    | 83,966          | <b>231,033</b>   | 248,181          |
| Income (loss) before income taxes                            | <b>13,645</b>    | (743)           | <b>37,670</b>    | 13,580           |
| Income tax expense (benefit)                                 | <b>1,749</b>     | (4,760)         | <b>5,182</b>     | (9,477)          |
| Net income                                                   | <b>11,896</b>    | 4,017           | <b>32,488</b>    | 23,057           |
| Preferred stock dividends and discount accretion             |                  |                 |                  | (3,892)          |
| Net income available to common stockholders                  | <b>\$ 11,896</b> | <b>\$ 4,017</b> | <b>\$ 32,488</b> | <b>\$ 19,165</b> |
| Net income per common share basic                            | <b>\$ 0.13</b>   | <b>\$ 0.06</b>  | <b>\$ 0.37</b>   | <b>\$ 0.29</b>   |
| Net income per common share diluted                          | <b>0.13</b>      | <b>0.06</b>     | <b>0.37</b>      | <b>0.29</b>      |
| Weighted average number of common shares outstanding-basic   | <b>86,795</b>    | 66,635          | <b>86,778</b>    | 66,129           |
| Weighted average number of common shares outstanding-diluted | <b>86,931</b>    | 66,706          | <b>86,890</b>    | 66,173           |
| Dividends per common share                                   | <b>\$ 0.07</b>   | <b>\$ 0.07</b>  | <b>\$ 0.21</b>   | <b>\$ 0.37</b>   |

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

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

|                                                                                                                           |                    |                 |                    |                      | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>Shareholders' Equity | Comprehensive<br>Income |
|---------------------------------------------------------------------------------------------------------------------------|--------------------|-----------------|--------------------|----------------------|-----------------------------------------------------------|-------------------------------|-------------------------|
| (dollars and shares<br>in thousands)                                                                                      | Preferred<br>Stock | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings |                                                           |                               |                         |
| <b>Balance,<br/>December 31, 2008</b>                                                                                     | \$ 97,358          | \$ 66,321       | \$ 569,875         | \$ 50,815            | \$ (53,504)                                               | \$ 730,865                    |                         |
| Comprehensive<br>income                                                                                                   |                    |                 |                    |                      |                                                           |                               |                         |
| Net income                                                                                                                |                    |                 |                    | 23,057               |                                                           | 23,057                        | \$ 23,057               |
| Other comprehensive<br>income (1)                                                                                         |                    |                 |                    |                      |                                                           |                               |                         |
| Change in unrealized<br>gain (loss) on<br>securities available<br>for sale, net of<br>reclassification and<br>tax         |                    |                 |                    |                      | 36,383                                                    | 36,383                        | 36,383                  |
| Transferred securities,<br>net of tax                                                                                     |                    |                 |                    |                      | 922                                                       | 922                           | 922                     |
| Reclassification<br>adjustment on cash<br>flows hedges, net of<br>tax                                                     |                    |                 |                    |                      | 661                                                       | 661                           | 661                     |
| Net loss, settlement<br>cost and amortization<br>of net (gain) loss on<br>defined benefit<br>pension plans, net of<br>tax |                    |                 |                    |                      | 654                                                       | 654                           | 654                     |
| Total comprehensive<br>income                                                                                             |                    |                 |                    |                      |                                                           |                               | \$ 61,677               |
| Dividends common<br>stock                                                                                                 |                    |                 |                    | (24,400)             |                                                           | (24,400)                      |                         |
| Dividends preferred<br>stock                                                                                              |                    |                 |                    | (1,250)              |                                                           | (1,250)                       |                         |
| Common stock issued                                                                                                       |                    | 20,895          | 177,482            |                      |                                                           | 198,377                       |                         |
| Preferred stock<br>repurchased                                                                                            | (97,358)           |                 |                    | (2,642)              |                                                           | (100,000)                     |                         |
| Common stock<br>repurchased                                                                                               |                    | (28)            | (324)              |                      |                                                           | (352)                         |                         |
| Warrants repurchased                                                                                                      |                    |                 | (1,200)            |                      |                                                           | (1,200)                       |                         |
| Stock based<br>compensation expense                                                                                       |                    |                 | 1,513              |                      |                                                           | 1,513                         |                         |

|                                                                                                            |    |           |            |           |             |            |
|------------------------------------------------------------------------------------------------------------|----|-----------|------------|-----------|-------------|------------|
| Stock activity under incentive comp plans                                                                  |    | (15)      | 236        | (38)      |             | 183        |
| <b>Balance, September 30, 2009</b>                                                                         | \$ | \$ 87,173 | \$ 747,582 | \$ 45,542 | \$ (14,884) | \$ 865,413 |
| <b>Balance, December 31, 2009</b>                                                                          | \$ | \$ 87,182 | \$ 746,775 | \$ 30,235 | \$ (20,366) | \$ 843,826 |
| Comprehensive income                                                                                       |    |           |            |           |             |            |
| Net income                                                                                                 |    |           |            | 32,488    |             | 32,488     |
| Other comprehensive income (1)                                                                             |    |           |            |           |             |            |
| Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax         |    |           |            |           | 29,295      | 29,295     |
| Transferred securities, net of tax                                                                         |    |           |            |           | 5,110       | 5,110      |
| Reclassification adjustment on cash flows hedges, net of tax                                               |    |           |            |           | 845         | 845        |
| Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax |    |           |            |           | 932         | 932        |
| Total comprehensive income                                                                                 |    |           |            |           |             | \$ 68,670  |
| Dividends common stock                                                                                     |    |           |            | (18,268)  |             | (18,268)   |
| Common stock issued                                                                                        |    | 13        | 123        |           |             | 136        |
| Common stock repurchased                                                                                   |    | (41)      | (442)      |           |             | (483)      |
| Stock based compensation expense                                                                           |    |           | 1,702      |           |             | 1,702      |
| Stock activity under incentive comp plans                                                                  |    | 18        | 134        | (51)      |             | 101        |
| <b>Balance, September 30, 2010</b>                                                                         | \$ | \$ 87,172 | \$ 748,292 | \$ 44,404 | \$ 15,816   | \$ 895,684 |

(1)

See Note 5 to  
the consolidated  
financial  
statements.

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

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

|                                                                                             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---------------------------------------------------------------------------------------------|--------------------------------------------|-------------|
|                                                                                             | <b>2010</b>                                | <b>2009</b> |
| (dollars in thousands)                                                                      |                                            |             |
| <b>Cash Flows From Operating Activities</b>                                                 |                                            |             |
| Net income                                                                                  | \$ 32,488                                  | \$ 23,057   |
| Adjustments to reconcile net income to cash provided by operating activities:               |                                            |             |
| Depreciation                                                                                | 6,948                                      | 6,757       |
| Amortization and impairment of other intangible assets                                      | 4,627                                      | 4,328       |
| Net premium amortization on investment securities                                           | 4,860                                      | 964         |
| Restricted stock expense                                                                    | 1,503                                      | 1,209       |
| Stock option expense                                                                        | 198                                        | 304         |
| Provision for loan losses                                                                   | 23,681                                     | 41,459      |
| Net securities gains                                                                        | (12,792)                                   | (20,974)    |
| Impairment on available-for-sale securities                                                 | 3,308                                      | 15,317      |
| Gain on sale leasebacks                                                                     | (4,815)                                    | (4,724)     |
| Gain on derivatives                                                                         | (1,386)                                    | (324)       |
| Net gains on sales and write-downs of loans and other assets                                | (1,131)                                    | (641)       |
| Loss on extinguishment of debt                                                              | 2,274                                      | 431         |
| Increase in cash surrender value of company owned life insurance                            | (1,333)                                    | (776)       |
| Residential real estate loans originated for sale                                           | (44,404)                                   | (214,433)   |
| Proceeds from sale of residential real estate loans                                         | 59,635                                     | 223,027     |
| Decrease in interest receivable                                                             | 4,964                                      | 3,781       |
| (Increase) decrease in other assets                                                         | 4,529                                      | (44,501)    |
| Decrease in accrued expenses and other liabilities                                          | 1,381                                      | 47,276      |
| Total adjustments                                                                           | 52,047                                     | 58,480      |
| Net cash flows provided by operating activities                                             | 84,535                                     | 81,537      |
| <b>Cash Flows From Investing Activities</b>                                                 |                                            |             |
| Cash and cash equivalents of acquired banking branches, net                                 |                                            | 389,917     |
| Purchases of investment securities available-for-sale                                       | (873,737)                                  | (1,841,706) |
| Purchases of investment securities held-to-maturity                                         | (255,828)                                  |             |
| Purchase of loans                                                                           |                                            | (8,024)     |
| Proceeds from maturities, prepayments and calls of investment securities available-for-sale | 752,062                                    | 558,218     |
| Proceeds from sales of investment securities available-for-sale                             | 339,629                                    | 630,381     |
| Proceeds from maturities, prepayments and calls of investment securities held-to-maturity   | 37,376                                     | 21,992      |
| Proceeds from sale of loans                                                                 | 3,377                                      | 259,253     |
| Net principal collected from customers                                                      | 163,149                                    | 380,962     |
| Proceeds from sale of premises and equipment and other assets                               | 17                                         | 1,146       |
| Proceeds from sale leaseback of real estate                                                 | 3,697                                      | 4,967       |
| Purchases of premises and equipment                                                         | (6,215)                                    | (11,832)    |

|                                                                                                       |                   |                   |
|-------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Net cash flows provided by (used in) investing activities                                             | <b>163,527</b>    | 385,274           |
| <b>Cash Flows From Financing Activities</b>                                                           |                   |                   |
| Net increase (decrease) in deposits and short-term borrowings:                                        |                   |                   |
| Noninterest-bearing demand deposits                                                                   | <b>79,061</b>     | 77,636            |
| Savings, NOW and money market deposits                                                                | <b>(153,673)</b>  | (158,457)         |
| Time deposits                                                                                         | <b>(389,439)</b>  | (72,644)          |
| Short-term borrowings                                                                                 | <b>36,617</b>     | (323,547)         |
| Payments for maturities on other borrowings                                                           | <b>(75,674)</b>   | (2,627)           |
| Proceeds from issuance of other borrowings                                                            | <b>50,000</b>     |                   |
| Payments related to retirement of debt                                                                | <b>(101,356)</b>  | (25,464)          |
| Cash dividends paid on common stock                                                                   | <b>(18,268)</b>   | (24,400)          |
| Cash dividends paid on preferred stock                                                                |                   | (1,514)           |
| Common stock repurchased                                                                              | <b>(483)</b>      | (352)             |
| Proceeds from exercise of stock options, including tax benefit                                        | <b>12</b>         | 97                |
| Repurchase of TARP preferred stock and warrants                                                       |                   | (101,200)         |
| Common stock issued                                                                                   | <b>136</b>        | 198,377           |
| Net cash flows provided by (used in) financing activities                                             | <b>(573,067)</b>  | (434,095)         |
| Net increase (decrease) in cash and cash equivalents                                                  | <b>(325,005)</b>  | 32,716            |
| Cash and cash equivalents at beginning of period                                                      | <b>497,276</b>    | 193,012           |
| <b>Cash and cash equivalents at end of period</b>                                                     | <b>\$ 172,271</b> | <b>\$ 225,728</b> |
| Supplemental cash flow information:                                                                   |                   |                   |
| Total interest paid                                                                                   | <b>\$ 62,181</b>  | <b>\$ 83,392</b>  |
| Total taxes paid (net of refunds)                                                                     | <b>\$ (2,775)</b> | <b>\$ 2,702</b>   |
| The accompanying notes to consolidated financial statements are an integral part of these statements. |                   |                   |

**Table of Contents**

**OLD NATIONAL BANCORP**

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

**NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as "Old National") and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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 September 30, 2010 and 2009, and December 31, 2009, and the results of its operations for the three and nine months ended September 30, 2010 and 2009. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National's Annual Report for the year ended December 31, 2009.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2010 presentation. Such reclassifications had no effect on net income.

**NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

**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.

Old National has loan participations, which qualify as participating interests, with other financial institutions. At September 30, 2010, these loans totaled \$74.7 million, of which \$33.9 million had been sold to other financial institutions and \$40.8 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder, involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder, all cash flows are divided among the participating interest holders in proportion to each holder's share of ownership and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

**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 855** In March 2010, the FASB issued an update (ASU No. 2010-11, Scope Exception Related to Embedded Credit Derivatives) impacting FASB ASC 815-15, Derivatives and Hedging – Embedded Derivatives. The amendments clarify the scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. This update became effective for the Company for the interim reporting period beginning after June 15, 2010 and did not have a material impact on the Company's consolidated financial statements or results of operations.



**Table of Contents**

**FASB ASC 310** In April 2010, the FASB issued an update (ASU No. 2010-18, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset) impacting FASB ASC 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality. Under the amendments, modifications of loans that are accounted for within a pool do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. This update became effective for the Company for the interim reporting period beginning after June 15, 2010 and did not have a material impact on the Company's consolidated financial statements or results of operations.

**NOTE 3 ACQUISITION**

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 cash. Old National recorded goodwill of \$8.7 million, \$11.2 million of intangible assets, cash of \$372.7 million, loans of \$5.6 million and other assets of \$11.7 million. We assumed deposits of \$426.9 million and other liabilities of \$0.2 million. The intangible assets are related to core deposits and are being amortized on an accelerated basis over 7 years. See Note 9 to the consolidated financial statements for additional information.

On October 6, 2010, Old National announced a definitive agreement to acquire Monroe Bancorp in an all stock transaction. Monroe Bancorp is headquartered in Bloomington, Indiana and has 15 banking centers. As of June 30, 2010, Monroe Bancorp had approximately \$846 million in assets and \$685 million in deposits. The transaction is expected to close early in the first quarter of 2011.

**Table of Contents****NOTE 4 NET INCOME PER SHARE**

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

| (dollars and shares in thousands,<br>except per share data) |    | <b>Three Months<br/>Ended<br/>September 30,<br/>2010</b> | <b>Three Months<br/>Ended<br/>September 30,<br/>2009</b> |
|-------------------------------------------------------------|----|----------------------------------------------------------|----------------------------------------------------------|
| <b>Basic Earnings Per Share</b>                             |    |                                                          |                                                          |
| Net income                                                  | \$ | <b>11,896</b>                                            | \$ 4,017                                                 |
| Less: Preferred stock dividends and accretion of discount   |    |                                                          |                                                          |
| Net income available to common stockholders                 |    | <b>11,896</b>                                            | 4,017                                                    |
| Weighted average common shares outstanding                  |    | <b>86,795</b>                                            | 66,635                                                   |
| <b>Basic Earnings Per Share</b>                             | \$ | <b>0.13</b>                                              | \$ 0.06                                                  |
| <b>Diluted Earnings Per Share</b>                           |    |                                                          |                                                          |
| Net income available to common stockholders                 |    | <b>11,896</b>                                            | 4,017                                                    |
| Weighted average common shares outstanding                  |    | <b>86,795</b>                                            | 66,635                                                   |
| Effect of dilutive securities:                              |    |                                                          |                                                          |
| Restricted stock (1)                                        |    | <b>126</b>                                               | 66                                                       |
| Stock options (2)                                           |    | <b>10</b>                                                | 5                                                        |
| Weighted average shares outstanding                         |    | <b>86,931</b>                                            | 66,706                                                   |
| <b>Diluted Earnings Per Share</b>                           | \$ | <b>0.13</b>                                              | \$ 0.06                                                  |
| (dollars and shares in thousands,<br>except per share data) |    | <b>Nine Months<br/>Ended<br/>September 30,<br/>2010</b>  | <b>Nine Months<br/>Ended<br/>September 30,<br/>2009</b>  |
| <b>Basic Earnings Per Share</b>                             |    |                                                          |                                                          |
| Net income                                                  | \$ | <b>32,488</b>                                            | \$ 23,057                                                |
| Less: Preferred stock dividends and accretion of discount   |    |                                                          | 3,892                                                    |
| Net income available to common stockholders                 |    | <b>32,488</b>                                            | 19,165                                                   |
| Weighted average common shares outstanding                  |    | <b>86,778</b>                                            | 66,129                                                   |
| <b>Basic Earnings Per Share</b>                             | \$ | <b>0.37</b>                                              | \$ 0.29                                                  |
| <b>Diluted Earnings Per Share</b>                           |    |                                                          |                                                          |

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|                                             |                |                |
|---------------------------------------------|----------------|----------------|
| Net income available to common stockholders | <b>32,488</b>  | 19,165         |
| Weighted average common shares outstanding  | <b>86,778</b>  | 66,129         |
| Effect of dilutive securities:              |                |                |
| Restricted stock (1)                        | <b>101</b>     | 36             |
| Stock options (2)                           | <b>11</b>      | 8              |
| Weighted average shares outstanding         | <b>86,890</b>  | 66,173         |
| <b>Diluted Earnings Per Share</b>           | <b>\$ 0.37</b> | <b>\$ 0.29</b> |

(1) 300 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share for the third quarter ended September 30, 2009 because the effect would be antidilutive. 70 and 311 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share for the nine months ended September 30, 2010 and 2009, respectively, because the effect would be antidilutive.

(2) Options to purchase 6,001 shares and 6,040 shares outstanding at September 30,

2010 and 2009,  
respectively,  
were not  
included in the  
computation of  
net income per  
diluted share for  
the third quarter  
and nine months  
ended  
September 30,  
2010 and 2009,  
respectively,  
because the  
exercise price of  
these options  
was greater than  
the average  
market price of  
the common  
shares and,  
therefore, the  
effect would be  
antidilutive.

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

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and unrealized gains and losses on cash flow hedges and changes in funded status of pension plans which are also recognized as separate components of equity. Following is a summary of other comprehensive income for the three and nine months ended September 30, 2010 and 2009:

|                                                                                                                      | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
| (dollars in thousands)                                                                                               | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| Net income                                                                                                           | \$ <b>11,896</b>                            | \$ 4,017    | \$ <b>32,488</b>                           | \$ 23,057   |
| Other comprehensive income (loss)                                                                                    |                                             |             |                                            |             |
| Change in securities available for sale:                                                                             |                                             |             |                                            |             |
| Unrealized holding gains (losses) arising during the period                                                          | <b>26,709</b>                               | 56,395      | <b>70,769</b>                              | 82,158      |
| Reclassification for securities transferred to held-to-maturity                                                      |                                             |             | <b>(9,371)</b>                             | (1,791)     |
| Reclassification adjustment for securities (gains) losses realized in income                                         | <b>(3,281)</b>                              | (5,102)     | <b>(12,792)</b>                            | (20,974)    |
| Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income         |                                             | (3,921)     | <b>(3,123)</b>                             | (17,399)    |
| Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income | <b>39</b>                                   | 5,062       | <b>3,308</b>                               | 15,317      |
| Income tax effect                                                                                                    | <b>(9,176)</b>                              | (19,305)    | <b>(19,496)</b>                            | (20,928)    |
| Change in securities held-to-maturity:                                                                               |                                             |             |                                            |             |
| Fair value adjustment for securities transferred from available-for-sale                                             |                                             |             | <b>9,371</b>                               | 1,791       |
| Amortization of fair value previously recognized into accumulated other comprehensive income                         | <b>(416)</b>                                | (185)       | <b>(860)</b>                               | (254)       |
| Income tax effect                                                                                                    | <b>166</b>                                  | 74          | <b>(3,401)</b>                             | (615)       |
| Cash flow hedges:                                                                                                    |                                             |             |                                            |             |
| Net unrealized derivative gains (losses) on cash flow hedges                                                         | <b>201</b>                                  | 839         | <b>1,190</b>                               | 883         |
| Reclassification adjustment on cash flow hedges                                                                      | <b>72</b>                                   | 72          | <b>216</b>                                 | 216         |
| Income tax effect                                                                                                    | <b>(109)</b>                                | (364)       | <b>(561)</b>                               | (438)       |
| Defined benefit pension plans:                                                                                       |                                             |             |                                            |             |
| Amortization of net (gain) loss recognized in income                                                                 | <b>750</b>                                  | 363         | <b>1,552</b>                               | 1,090       |
| Income tax effect                                                                                                    | <b>(299)</b>                                | (145)       | <b>(620)</b>                               | (436)       |
| Total other comprehensive income                                                                                     | <b>14,656</b>                               | 33,783      | <b>36,182</b>                              | 38,620      |
| Comprehensive income                                                                                                 | \$ <b>26,552</b>                            | \$ 37,800   | \$ <b>68,670</b>                           | \$ 61,677   |



**Table of Contents**

The following table summarizes the changes within each classification of accumulated other comprehensive income for the nine months ended September 30, 2010 and 2009:

| (dollars in thousands)                                                                           | AOCI at<br>December<br>31,<br>2009 | Other<br>Comprehensive<br>Income | AOCI at<br>September<br>30,<br>2010 |
|--------------------------------------------------------------------------------------------------|------------------------------------|----------------------------------|-------------------------------------|
| Unrealized gains (losses) on available-for-sale securities                                       | \$ 19,789                          | \$ 31,170                        | \$ 50,959                           |
| Unrealized losses on securities for which<br>other-than-temporary-impairment has been recognized | (27,501)                           | (1,875)                          | (29,376)                            |
| Unrealized gains (losses) on held-to-maturity securities                                         | 812                                | 5,110                            | 5,922                               |
| Unrecognized gain (loss) on cash flow hedges                                                     | 187                                | 845                              | 1,032                               |
| Defined benefit pension plans                                                                    | (13,653)                           | 932                              | (12,721)                            |
| Accumulated other comprehensive income (loss)                                                    | \$ (20,366)                        | \$ 36,182                        | \$ 15,816                           |

| (dollars in thousands)                                                                           | AOCI at<br>December<br>31,<br>2008 | Other<br>Comprehensive<br>Income | AOCI at<br>September<br>30,<br>2009 |
|--------------------------------------------------------------------------------------------------|------------------------------------|----------------------------------|-------------------------------------|
| Unrealized gains (losses) on available-for-sale securities                                       | \$ (40,504)                        | \$ 47,428                        | \$ 6,924                            |
| Unrealized losses on securities for which<br>other-than-temporary-impairment has been recognized |                                    | (11,045)                         | (11,045)                            |
| Unrealized gains (losses) on held-to-maturity securities                                         |                                    | 922                              | 922                                 |
| Unrecognized gain (loss) on cash flow hedges                                                     | (480)                              | 661                              | 181                                 |
| Defined benefit pension plans                                                                    | (12,520)                           | 654                              | (11,866)                            |
| Accumulated other comprehensive income (loss)                                                    | \$ (53,504)                        | \$ 38,620                        | \$ (14,884)                         |

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

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at September 30, 2010 and December 31, 2009 and the corresponding amounts of unrealized gains and losses therein:

| (dollars in thousands)                          | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|-------------------------------------------------|---------------------------|-----------------------------|------------------------------|-----------------------|
| <b>September 30, 2010</b>                       |                           |                             |                              |                       |
| <b>Available-for-sale</b>                       |                           |                             |                              |                       |
| U.S. Treasury                                   | \$ 51,279                 | \$ 535                      | \$                           | \$ 51,814             |
| U.S. Government-sponsored entities and agencies | 525,480                   | 12,785                      | (117)                        | 538,148               |
| Mortgage-backed securities Agency               | 908,425                   | 31,378                      | (16)                         | 939,787               |
| Mortgage-backed securities Non-agency           | 184,569                   | 1,136                       | (22,734)                     | 162,971               |
| States and political subdivisions               | 313,774                   | 23,219                      |                              | 336,993               |
| Pooled trust preferred securities               | 28,144                    |                             | (19,728)                     | 8,416                 |
| Other securities                                | 143,338                   | 11,089                      | (1,752)                      | 152,675               |
| Total available-for-sale securities             | \$ 2,155,009              | \$ 80,142                   | \$ (44,347)                  | \$ 2,190,804          |
| <b>Held-to-maturity</b>                         |                           |                             |                              |                       |
| U.S. Government-sponsored entities and agencies | \$ 405,152                | \$ 9,813                    | \$                           | \$ 414,965            |
| Mortgage-backed securities Agency               | 130,159                   | 4,285                       |                              | 134,444               |
| States and political subdivisions               | 217,664                   | 4,897                       | (1,931)                      | 220,630               |
| Other securities                                | 860                       |                             | (211)                        | 649                   |
| Total held-to-maturity securities               | \$ 753,835                | \$ 18,995                   | \$ (2,142)                   | \$ 770,688            |
| <b>December 31, 2009</b>                        |                           |                             |                              |                       |
| <b>Available-for-sale</b>                       |                           |                             |                              |                       |
| 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 preferred securities               | 28,498                    |                             | (16,100)                     | 12,398                |
| Other securities                                | 138,200                   | 6,098                       | (3,038)                      | 141,260               |
| Total available-for-sale securities             | \$ 2,499,216              | \$ 57,234                   | \$ (70,231)                  | \$ 2,486,219          |
| <b>Held-to-maturity</b>                         |                           |                             |                              |                       |
| U.S. Government-sponsored entities and agencies | \$ 227,461                | \$ 2,029                    | \$ (1,613)                   | \$ 227,877            |
| Mortgage-backed securities Agency               | 165,639                   | 3,934                       |                              | 169,573               |
| Other securities                                | 2,909                     |                             | (406)                        | 2,503                 |
| Total held-to-maturity securities               | \$ 396,009                | \$ 5,963                    | \$ (2,019)                   | \$ 399,953            |



**Table of Contents**

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)    | September 30, 2010 |              | Weighted       |
|---------------------------|--------------------|--------------|----------------|
| <b>Maturity</b>           | <b>Amortized</b>   | <b>Fair</b>  | <b>Average</b> |
| <b>Available-for-sale</b> | <b>Cost</b>        | <b>Value</b> | <b>Yield</b>   |
| Within one year           | \$ 115,220         | \$ 114,279   | 3.78%          |
| One to five years         | 1,097,665          | 1,129,107    | 3.13           |
| Five to ten years         | 284,360            | 279,437      | 5.75           |
| Beyond ten years          | 657,764            | 667,981      | 4.09           |
| Total                     | \$ 2,155,009       | \$ 2,190,804 | 3.80%          |
| <b>Held-to-maturity</b>   |                    |              |                |
| Within one year           | \$ 97              | \$ 78        | 3.54%          |
| One to five years         | 131,219            | 135,301      | 3.65           |
| Five to ten years         | 10,063             | 10,150       | 3.86           |
| Beyond ten years          | 612,456            | 625,159      | 4.02           |
| Total                     | \$ 753,835         | \$ 770,688   | 3.95%          |

**Table of Contents**

The following table summarizes the investment securities with unrealized losses at September 30, 2010 and December 31, 2009 by aggregated major security type and length of time in a continuous unrealized loss position:

| (dollars in thousands)                          | <b>Less than 12 months</b> |                          | <b>12 months or longer</b> |                          | <b>Total</b>      |                          |
|-------------------------------------------------|----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
|                                                 | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <b>September 30, 2010</b>                       |                            |                          |                            |                          |                   |                          |
| <b>Available-for-Sale</b>                       |                            |                          |                            |                          |                   |                          |
| U.S. Government-sponsored entities and agencies | \$ 65,058                  | \$ (117)                 | \$                         | \$                       | \$ 65,058         | \$ (117)                 |
| Mortgage-backed securities Agency               | 26,448                     | (15)                     | 799                        | (1)                      | 27,247            | (16)                     |
| Mortgage-backed securities - Non-agency         | 21,050                     | (2,771)                  | 105,644                    | (19,963)                 | 126,694           | (22,734)                 |
| Pooled trust preferred securities               |                            |                          | 8,416                      | (19,728)                 | 8,416             | (19,728)                 |
| Other securities                                |                            |                          | 6,297                      | (1,752)                  | 6,297             | (1,752)                  |
| Total available-for-sale                        | \$ 112,556                 | \$ (2,903)               | \$ 121,156                 | \$ (41,444)              | \$ 233,712        | \$ (44,347)              |
| <b>Held-to-Maturity</b>                         |                            |                          |                            |                          |                   |                          |
| States and political subdivisions               | \$ 92,969                  | \$ (1,931)               | \$                         | \$                       | \$ 92,969         | \$ (1,931)               |
| Other securities                                |                            |                          | 648                        | (211)                    | 648               | (211)                    |
| Total held-to-maturity                          | \$ 92,969                  | \$ (1,931)               | \$ 648                     | \$ (211)                 | \$ 93,617         | \$ (2,142)               |
| <b>December 31, 2009</b>                        |                            |                          |                            |                          |                   |                          |
| <b>Available-for-Sale</b>                       |                            |                          |                            |                          |                   |                          |
| U.S. Government-sponsored entities and agencies | \$ 261,186                 | \$ (7,389)               | \$                         | \$                       | \$ 261,186        | \$ (7,389)               |
| Mortgage-backed securities Agency               | 18,488                     | (93)                     | 37                         |                          | 18,525            | (93)                     |
| Mortgage-backed securities - Non-agency         | 1,141                      | (8)                      | 140,622                    | (42,543)                 | 141,763           | (42,551)                 |
| States and political subdivisions               | 75,918                     | (871)                    | 6,783                      | (189)                    | 82,701            | (1,060)                  |
| Pooled trust preferred securities               |                            |                          | 12,398                     | (16,100)                 | 12,398            | (16,100)                 |
| Other securities                                | 4,445                      | (40)                     | 8,891                      | (2,998)                  | 13,336            | (3,038)                  |
| Total available-for-sale                        | \$ 361,178                 | \$ (8,401)               | \$ 168,731                 | \$ (61,830)              | \$ 529,909        | \$ (70,231)              |
| <b>Held-to-Maturity</b>                         |                            |                          |                            |                          |                   |                          |
| U.S. Government-sponsored entities and agencies | \$ 93,467                  | \$ (1,613)               | \$                         | \$                       | \$ 93,467         | \$ (1,613)               |

|                        |           |            |          |          |           |            |
|------------------------|-----------|------------|----------|----------|-----------|------------|
| Other securities       |           |            | 2,502    | (406)    | 2,502     | (406)      |
| Total held-to-maturity | \$ 93,467 | \$ (1,613) | \$ 2,502 | \$ (406) | \$ 95,969 | \$ (2,019) |

Proceeds from sales and calls of securities available for sale were \$882.0 million and \$915.8 million for the nine months ended September 30, 2010 and 2009, respectively. Gains of \$13.1 million and \$21.9 million were realized on these sales during 2010 and 2009, respectively, and losses of \$0.3 million and \$0.9 million were realized on these sales during 2010 and 2009. Also impacting earnings in the first nine months of 2010 are other-than-temporary impairment charges related to credit loss on two pooled trust preferred securities and ten non-agency mortgage-backed securities in the amount of \$3.3 million, described below. Impacting earnings in the first nine months of 2009 were other-than-temporary impairment charges related to credit loss on six pooled trust preferred securities and two non-agency mortgage-backed securities in the amount of \$15.3 million.

During the second quarter of 2010, approximately \$143.8 million of municipal securities were transferred from the available-for-sale portfolio to the held-to-maturity portfolio at fair value. The \$9.4 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.

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.

**Table of Contents**

Management evaluates securities for other-than-temporary impairment ( OTTI ) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available-for-sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320 (SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in FASB ASC 325-10 (EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets*).

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

When other-than-temporary-impairment occurs under either model, the amount of the other-than-temporary-impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary-impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. Otherwise, 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 September 30, 2010, Old National's security portfolio consisted of 1,020 securities, 85 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's non-agency mortgage-backed and pooled trust preferred securities, as discussed below:

**Non-agency Mortgage-backed Securities**

At September 30, 2010, the Company's securities portfolio contained 17 non-agency collateralized mortgage obligations with a fair value of \$163.0 million which had net unrealized losses of approximately \$21.6 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 September 30, 2010, ten of these securities were rated below investment grade with grades ranging from B- to C. One of the ten securities is rated B- and has a fair value of \$9.4 million, five of the securities are rated CCC with a fair value of \$50.1 million, two of the securities are rated CC with a fair value of \$27.8 million and two of the securities are rated C with a fair value of \$10.4 million. These securities were evaluated to determine if the underlying collateral is expected to experience loss, resulting in a principal loss 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 with a higher default-curve and severity percentages being 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 \$3.0 million of credit losses on ten of these securities for the nine months ended September 30, 2010. The fair value of these non-agency mortgage-backed securities was \$97.7 million at September 30, 2010.

## **Table of Contents**

Based on an analysis of the underlying collateral, Old National recorded \$0.5 million of credit losses on two non-agency mortgage-backed securities for the nine months ended September 30, 2009. The fair value of these non-agency mortgage-backed securities was \$12.7 million at September 30, 2009.

### **Pooled Trust Preferred Securities**

At September 30, 2010, the Company's securities portfolio contained nine pooled trust preferred securities with a fair value of \$8.4 million and unrealized losses of \$19.7 million. Seven of the pooled trust preferred securities in our portfolio fall within the scope of FASB ASC 325-10 (EITF 99-20) and have a fair value of \$4.8 million with unrealized losses of \$9.2 million at September 30, 2010. These securities were rated A2 and A3 at inception, but at September 30, 2010, one security was rated BB, five securities were rated C and one security D. 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 nine months ended September 30, 2010, our model indicated other-than-temporary-impairment losses on two securities of \$0.7 million, of which \$0.3 million was recorded as a credit loss in earnings and \$0.4 million is included in other comprehensive income. At September 30, 2010, the fair value of these two securities was \$1.1 million and they remained classified as available for sale.

Two of our pooled trust preferred securities with a fair value of \$3.6 million and unrealized losses of \$10.5 million at September 30, 2010 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

For the nine months ended September 30, 2009, our model indicated other-than-temporary-impairment losses on six pooled trust preferred securities of \$25.2 million, of which \$14.8 million was recorded as expense and \$10.4 million was recorded in other comprehensive income. Together, the seven securities subject to FASB ASC 325-10 accounted for \$10.5 million of the unrealized loss in the pooled trust preferred securities category at September 30, 2009.

The table below summarizes the relevant characteristics of our nine pooled trust preferred securities as well as four single issuer trust preferred securities which are included with other securities in Note 6 to the consolidated financial statements. Each of the pooled trust preferred securities support a more senior tranche of security holders except for the MM Community Funding II security which, due to payoffs, Old National is now in the most senior class.

As depicted in the table below, all nine securities have experienced credit defaults. However, three of these securities have excess subordination and are not other-than-temporarily-impaired as a result of their class hierarchy which provides more loss protection.

**Table of Contents**
**Trust preferred securities**  
**September 30, 2010**  
**(Dollars in Thousands)**

|                                                  |                 |                     |                   |               |                               |                    |                                       |                 | Actual<br>Deferrals<br>and<br>Defaults<br>as a<br>Percent<br>of<br>Original<br>Collateral | Expected<br>Defaults<br>as a<br>% of<br>Remaining<br>Performing<br>Collateral | Excess<br>Subordination<br>as a %<br>of<br>Current<br>Performing<br>Collateral |
|--------------------------------------------------|-----------------|---------------------|-------------------|---------------|-------------------------------|--------------------|---------------------------------------|-----------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
|                                                  | Lowest<br>Class | Credit<br>Rating(1) | Amortized<br>Cost | Fair<br>Value | Unrealized<br>Gain/<br>(Loss) | Realized<br>Losses | Currently<br>Performing/<br>Remaining | # of<br>Issuers |                                                                                           |                                                                               |                                                                                |
| <b>Pooled trust preferred securities:</b>        |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| TROPC                                            |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| 2003-1A                                          | A4L             | C                   | \$ 1,283          | \$ 303        | \$ (980)                      | \$ 146             | 20/39                                 |                 | 38.8%                                                                                     | 16.4%                                                                         | 0.0%                                                                           |
| MM                                               |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| Community                                        |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| Funding IX                                       | B-2             | C                   | 2,107             | 763           | (1,344)                       | 165                | 19/33                                 |                 | 35.4%                                                                                     | 13.1%                                                                         | 0.0%                                                                           |
| Reg Div                                          |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| Funding 2004                                     | B-2             | D                   | 4,563             | 683           | (3,880)                       |                    | 29/46                                 |                 | 34.4%                                                                                     | 22.0%                                                                         | 0.0%                                                                           |
| Pretsl XII                                       | B-1             | C                   | 2,886             | 1,385         | (1,501)                       |                    | 52/77                                 |                 | 29.0%                                                                                     | 7.4%                                                                          | 0.0%                                                                           |
| Pretsl XV                                        | B-1             | C                   | 1,695             | 494           | (1,201)                       |                    | 52/72                                 |                 | 35.0%                                                                                     | 11.0%                                                                         | 0.0%                                                                           |
| Reg Div                                          |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| Funding 2005                                     | B-1             | C                   | 311               | 105           | (206)                         |                    | 23/49                                 |                 | 51.3%                                                                                     | 41.5%                                                                         | 0.0%                                                                           |
| MM                                               |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| Community                                        |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| Funding II                                       | B               | BB                  | 1,145             | 1,051         | (94)                          |                    | 6/9                                   |                 | 4.7%                                                                                      | 5.0%                                                                          | 8.0%                                                                           |
| Pretsl XXVII                                     |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| LTD                                              | B               | CC                  | 4,785             | 1,318         | (3,467)                       |                    | 33/49                                 |                 | 29.4%                                                                                     | 26.2%                                                                         | 23.2%                                                                          |
| Trapeza Ser                                      |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| 13A                                              | A2A             | CCC-                | 9,369             | 2,314         | (7,055)                       |                    | 43/63                                 |                 | 31.7%                                                                                     | 26.9%                                                                         | 36.1%                                                                          |
|                                                  |                 |                     | 28,144            | 8,416         | (19,728)                      | 311                |                                       |                 |                                                                                           |                                                                               |                                                                                |
| <b>Single Issuer trust preferred securities:</b> |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| First Empire                                     |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| Cap (M&T)                                        |                 | BBB-                | 954               | 968           | 14                            |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| First Empire                                     |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| Cap (M&T)                                        |                 | BBB-                | 2,901             | 2,903         | 2                             |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| Fleet Cap Tr V                                   |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| (BOA)                                            |                 | BB                  | 3,349             | 2,524         | (825)                         |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| JP Morgan                                        |                 | BBB+                | 4,700             | 3,773         | (927)                         |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |
| Chase Cap                                        |                 |                     |                   |               |                               |                    |                                       |                 |                                                                                           |                                                                               |                                                                                |

## XIII

|       |           |           |             |        |
|-------|-----------|-----------|-------------|--------|
|       | 11,904    | 10,168    | (1,736)     |        |
| Total | \$ 40,048 | \$ 18,584 | \$ (21,464) | \$ 311 |

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

The following table details all securities with other-than-temporary-impairment recognized in 2010, their credit rating at September 30, 2010 and the related credit losses recognized in earnings:

|                                                              | Vintage | Lowest Credit Rating (1) | Amortized Cost | Amount of other-than-temporary impairment recognized in earnings |                                      |
|--------------------------------------------------------------|---------|--------------------------|----------------|------------------------------------------------------------------|--------------------------------------|
|                                                              |         |                          |                | Three months ended September 30, 2010                            | Nine months ended September 30, 2010 |
| Non-agency mortgage-backed securities:                       |         |                          |                |                                                                  |                                      |
| BAFC Ser 4                                                   | 2007    | CCC                      | \$ 14,026      | \$                                                               | \$ 79                                |
| CWALT Ser 73CB                                               | 2005    | CCC                      | 6,606          |                                                                  | 207                                  |
| CWALT Ser 73CB                                               | 2005    | CCC                      | 6,923          |                                                                  | 427                                  |
| CWHL 2006-10                                                 | 2006    | C                        | 10,030         |                                                                  | 309                                  |
| CWHL 2005-20                                                 | 2005    | B-                       | 9,734          |                                                                  | 39                                   |
| FHASI Ser 4                                                  | 2007    | CCC                      | 21,617         | 37                                                               | 629                                  |
| RFMSI Ser S9                                                 | 2006    | CC                       | 32,070         |                                                                  | 923                                  |
| RFMSI Ser S10                                                | 2006    | CC                       | 4,360          | 2                                                                | 76                                   |
| RALI QS2                                                     | 2006    | C                        | 6,565          |                                                                  | 278                                  |
| RFMSI S1                                                     | 2006    | CCC                      | 5,127          |                                                                  | 30                                   |
|                                                              |         |                          | 117,058        | 39                                                               | 2,997                                |
| Pooled trust preferred securities:                           |         |                          |                |                                                                  |                                      |
| TROPC                                                        | 2003    | C                        | 1,283          |                                                                  | 146                                  |
| MM Community Funding IX                                      | 2003    | C                        | 2,107          |                                                                  | 165                                  |
|                                                              |         |                          | \$ 3,390       |                                                                  | 311                                  |
| Total other-than-temporary-impairment recognized in earnings |         |                          |                | \$ 39                                                            | \$ 3,308                             |

(1) Lowest rating for the security provided by any

nationally  
recognized  
credit rating  
agency.

**Table of Contents**

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

|                                                                 |         | Lowest<br>Credit<br>Rating<br>(1) | Amortized<br>Cost | Amount of other-than-temporary<br>impairment recognized in earnings |                                               |
|-----------------------------------------------------------------|---------|-----------------------------------|-------------------|---------------------------------------------------------------------|-----------------------------------------------|
|                                                                 | Vintage |                                   |                   | Three<br>months<br>ended<br>September<br>30, 2009                   | Nine months<br>ended<br>September 30,<br>2009 |
| Non-agency mortgage-backed securities:                          |         |                                   |                   |                                                                     |                                               |
| CWHL 2006-10                                                    | 2006    | CCC                               | \$ 10,825         | \$ 276                                                              | \$ 276                                        |
| RALI QS2                                                        | 2006    | CC                                | 8,966             | 216                                                                 | 216                                           |
|                                                                 |         |                                   | 19,791            | 492                                                                 | 492                                           |
| Pooled trust preferred securities:                              |         |                                   |                   |                                                                     |                                               |
| TROPIC                                                          | 2003    | CC                                | 2,175             | 394                                                                 | 2,805                                         |
| MM Community Funding IX                                         | 2003    | CC                                | 2,318             | 1,152                                                               | 2,612                                         |
| Reg Div Funding                                                 | 2004    | CC                                | 5,491             | 110                                                                 | 4,306                                         |
| Pretsl XII                                                      | 2003    | CC                                | 3,448             | 517                                                                 | 1,327                                         |
| Pretsl XV                                                       | 2004    | CC                                | 3,340             | 816                                                                 | 1,711                                         |
| Reg Div Funding                                                 | 2005    | C                                 | 1,986             | 1,581                                                               | 2,064                                         |
|                                                                 |         |                                   | \$ 18,758         | 4,570                                                               | 14,825                                        |
| Total other-than-temporary-impairment<br>recognized in earnings |         |                                   |                   | \$ 5,062                                                            | \$ 15,317                                     |

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

The following table presents a rollforward of the cumulative credit losses recognized in earnings:

|                                                                                                                       |           |
|-----------------------------------------------------------------------------------------------------------------------|-----------|
| Beginning balance, January 1, 2010                                                                                    | \$ 24,795 |
| Increase to the amount related to the credit loss for which other-than-temporary-impairment was previously recognized | 3,308     |
| Ending balance, September 30, 2010                                                                                    | \$ 28,103 |

The cumulative life-to-date credit losses of \$28,103 consist of losses of \$7,426 on non-agency mortgage-backed securities and \$20,677 of losses on pooled trust preferred securities.

**NOTE 7 LOANS HELD FOR SALE**

Residential loans that Old National has committed to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). At September 30, 2010

and December 31, 2009, Old National had residential loans held for sale of \$3.5 million and \$17.5 million, respectively. The majority of new production during the first nine months of 2010 was retained in Old National's loan portfolio, resulting in lower residential loans held for sale.

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. Management decided to retain its taxable leases and 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 fair value in the third quarter of 2009. No losses were recorded in connection with the transfer back to the loan portfolio. During 2010, management decided to transfer the remaining leases from held for sale back to the loan portfolio due to decreased levels of loan production. The remaining leases were transferred at the lower of cost or fair value. No losses were recorded in connection with the transfer.

During the first nine months of 2010, commercial and commercial real estate loans held for investment of \$3.2 million were reclassified to loans held for sale at the lower of cost or fair value and sold for \$3.4 million, resulting in a recovery of \$0.2 million on the loans transferred. During the first nine months of 2009, commercial and commercial real estate loans held for investment of \$2.6 million were reclassified to loans held for sale at the lower of cost or fair value and sold for \$2.0 million, resulting in a write-down on loans transferred to held for sale of \$0.6 million, which was recorded as a reduction to the allowance for loan losses.

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

Activity in the allowance for loan losses was as follows:

|                                                     | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------------------------------|--------------------------------------------|-------------|
| (dollars in thousands)                              | <b>2010</b>                                | <b>2009</b> |
| Balance, January 1                                  | \$ <b>69,548</b>                           | \$ 67,087   |
| Additions:                                          |                                            |             |
| Provision charged to expense                        | <b>23,681</b>                              | 41,459      |
| Deductions:                                         |                                            |             |
| Write-downs from loans transferred to held for sale |                                            | 572         |
| Loans charged-off                                   | <b>30,907</b>                              | 50,944      |
| Recoveries                                          | <b>(9,827)</b>                             | (12,521)    |
| Net charge-offs                                     | <b>21,080</b>                              | 38,995      |
| Balance, September 30                               | \$ <b>72,149</b>                           | \$ 69,551   |

Individually impaired loans were as follows:

|                                                                | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|----------------------------------------------------------------|-----------------------------------|----------------------------------|
| (dollars in thousands)                                         |                                   |                                  |
| Impaired loans without an allowance for loan losses allocation | \$ <b>13,162</b>                  | \$ 12,659                        |
| Impaired loans with an allowance for loan losses allocation    | <b>37,141</b>                     | 36,452                           |
| Total impaired loans                                           | \$ <b>50,303</b>                  | \$ 49,111                        |
| Allowance for loan losses allocated to impaired loans          | \$ <b>15,109</b>                  | \$ 14,503                        |

For the nine months ended September 30, 2010 and 2009, the average balance of impaired loans was \$50.4 million and \$59.5 million, respectively, for which no interest income was recorded. Generally, no additional funds are committed to be advanced in connection with impaired loans, including troubled debt restructurings.

Impaired loans are defined as those which management believes that based on current information, it is probable that Old National will be unable to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement. When management determines that a loan is impaired, impairment is calculated based on the present value of the expected future cash flows, discounted at the loan's effective interest rate, except in cases where the loan is collateral-dependent. If the loan is deemed to be collateral-dependent, updated appraisals are obtained and selling costs are considered to arrive at an estimate of current fair value. If management determines that the fair value of an impaired loan is less than the recorded investment in the loan, an impairment charge is recognized by recording a charge-off to the allowance for loan losses.

Nonperforming loans were as follows:

|                                      | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|--------------------------------------|-----------------------------------|----------------------------------|
| (dollars in thousands)               |                                   |                                  |
| Nonaccrual loans                     | \$ <b>69,843</b>                  | \$ 67,016                        |
| Renegotiated loans not on nonaccrual |                                   |                                  |

|                                                     |    |               |    |        |
|-----------------------------------------------------|----|---------------|----|--------|
| Total nonperforming loans                           | \$ | <b>69,843</b> | \$ | 67,016 |
| Past due loans (90 days or more and still accruing) | \$ | <b>1,364</b>  | \$ | 3,501  |

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

**Table of Contents**

In the course of resolving nonperforming loans, we may choose to restructure the contractual terms of certain loans. We attempt to work out an alternative payment schedule with the borrower in order to avoid foreclosure actions. Any loans that are modified are reviewed by us to identify if a troubled debt restructuring ( TDR ) has occurred, which is when for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and could include reduction of the stated interest rate other than normal market rate adjustments, extension of maturity dates, or reduction of principal balance or accrued interest. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit us by increasing the ultimate probability of collection.

Loans modified in a troubled debt restructuring are placed on nonaccrual status until the Company determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. At September 30, 2010, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled \$4.2 million, consisting of \$4.0 million of commercial loans and \$0.2 million of commercial real estate loans, and had specific allocations of allowance for loan losses of \$1.6 million. At December 31, 2009, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled \$10.0 million, consisting of \$7.6 million of commercial loans and \$2.4 million of commercial real estate loans, and had specific allocations of allowance for loan losses of \$3.5 million.

**NOTE 9 GOODWILL AND OTHER INTANGIBLE ASSETS**

The following table shows the changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2010 and 2009:

| (dollars in thousands)              | <b>Community<br/>Banking</b> | <b>Other</b> | <b>Total</b> |
|-------------------------------------|------------------------------|--------------|--------------|
| Balance, January 1, 2010            | \$ 128,011                   | \$ 39,873    | \$ 167,884   |
| Goodwill acquired during the period |                              |              |              |
| Balance, September 30, 2010         | \$ 128,011                   | \$ 39,873    | \$ 167,884   |
| Balance, January 1, 2009            | \$ 119,325                   | \$ 39,873    | \$ 159,198   |
| Goodwill acquired during the period | 8,686                        |              | 8,686        |
| Balance, September 30, 2009         | \$ 128,011                   | \$ 39,873    | \$ 167,884   |

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2010 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.

**Table of Contents**

The gross carrying amount and accumulated amortization of other intangible assets at September 30, 2010 and December 31, 2009 was as follows:

|                                 | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization<br/>and<br/>Impairment</b> | <b>Net<br/>Carrying<br/>Amount</b> |
|---------------------------------|--------------------------------------|------------------------------------------------------------|------------------------------------|
| (dollars in thousands)          |                                      |                                                            |                                    |
| <b>September 30, 2010</b>       |                                      |                                                            |                                    |
| Amortized intangible assets:    |                                      |                                                            |                                    |
| Core deposit                    | \$ 26,810                            | \$ (13,708)                                                | \$ 13,102                          |
| Customer business relationships | 25,753                               | (14,116)                                                   | 11,637                             |
| Customer loan relationships     | 4,413                                | (1,471)                                                    | 2,942                              |
| Total intangible assets         | \$ 56,976                            | \$ (29,295)                                                | \$ 27,681                          |
| <b>December 31, 2009</b>        |                                      |                                                            |                                    |
| 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                          |

Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 7 to 25 years. 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. Total amortization expense associated with other intangible assets for the nine months ended September 30 was \$4.6 million in 2010 and \$4.3 million in 2009.

Estimated amortization expense for future years is as follows:

|                        |           |
|------------------------|-----------|
| (dollars in thousands) |           |
| 2010 remaining         | \$ 1,504  |
| 2011                   | 5,546     |
| 2012                   | 4,840     |
| 2013                   | 4,050     |
| 2014                   | 3,259     |
| Thereafter             | 8,482     |
| Total                  | \$ 27,681 |

**Table of Contents****NOTE 10 SHORT-TERM BORROWINGS**

The following table presents the distribution of Old National's short-term borrowings and related weighted-average interest rates as of September 30, 2010:

|                                             | <b>Federal<br/>Funds<br/>Purchased</b> | <b>Repurchase<br/>Agreements</b> | <b>Other<br/>Short-term<br/>Borrowings</b> | <b>Total</b> |
|---------------------------------------------|----------------------------------------|----------------------------------|--------------------------------------------|--------------|
| (dollars in thousands)                      |                                        |                                  |                                            |              |
| <b>2010</b>                                 |                                        |                                  |                                            |              |
| Outstanding at September 30, 2010           | \$ 41,364                              | \$ 317,304                       | \$ 9,093                                   | \$ 367,761   |
| Average amount outstanding                  | 3,248                                  | 316,265                          | 8,750                                      | 328,263      |
| Maximum amount outstanding at any month-end | 41,365                                 | 348,403                          | 10,423                                     |              |
| Weighted average interest rate:             |                                        |                                  |                                            |              |
| During nine months ended September 30, 2010 | 0.13%                                  | 0.17%                            | 1.70%                                      | 0.21%        |
| At September 30, 2010                       | 0.15                                   | 0.17                             |                                            | 0.17         |

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

During the second quarter of 2009, Old National entered into a \$30 million revolving credit facility at the parent level. The facility had an interest rate of LIBOR plus 2.00% and a maturity of 364 days. Old National did not use the facility. The facility matured in April 2010 and Old National did not renew the facility.

***Treasury Investment Program***

As of September 30, 2010, Old National had \$9.1 million of Treasury funds under the Treasury Tax and Loan Account program. These funds typically have a short duration, are collateralized and can be withdrawn by the Treasury Department at any time. At September 30, 2010, the effective interest rate on these funds was 0%.

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

The following table summarizes Old National's and its subsidiaries' other borrowings at September 30, 2010 and December 31, 2009:

| (dollars in thousands)                                                                                                               | September<br>30,<br>2010 | December 31,<br>2009 |
|--------------------------------------------------------------------------------------------------------------------------------------|--------------------------|----------------------|
| <b>Old National Bancorp:</b>                                                                                                         |                          |                      |
| Senior unsecured note (fixed rate 5.00%) maturing May 2010                                                                           | \$                       | \$ 50,000            |
| Junior subordinated debenture (fixed rate of 8.00% and variable rates 2.04% to 3.34%) maturing April 2032 to March 2035              | <b>108,000</b>           | 108,000              |
| ASC 815 fair value hedge and other basis adjustments                                                                                 | <b>(697)</b>             | (726)                |
| <b>Old National Bank:</b>                                                                                                            |                          |                      |
| Securities sold under agreements to repurchase (variable rate 3.31%) maturing October 2014                                           | <b>50,000</b>            | 99,000               |
| Federal Home Loan Bank advances (fixed rates 1.61% to 8.34% and variable rates 1.87% to 2.58%) maturing October 2011 to January 2023 | <b>264,332</b>           | 289,974              |
| Subordinated bank notes (fixed rate 6.75%) maturing October 2011                                                                     | <b>150,000</b>           | 150,000              |
| Capital lease obligation                                                                                                             | <b>4,319</b>             | 4,350                |
| ASC 815 fair value hedge and other basis adjustments                                                                                 | <b>2,328</b>             | (1,539)              |
| <b>Total other borrowings</b>                                                                                                        | <b>\$ 578,282</b>        | <b>\$ 699,059</b>    |

Contractual maturities of other borrowings at September 30, 2010, were as follows:

|                                                       |                   |
|-------------------------------------------------------|-------------------|
| (dollars in thousands)                                |                   |
| Due in 2010                                           | \$ 11             |
| Due in 2011                                           | 200,046           |
| Due in 2012                                           | 25,688            |
| Due in 2013                                           | 75,918            |
| Due in 2014                                           | 67,589            |
| Thereafter                                            | 207,399           |
| SFAS 133 fair value hedge and other basis adjustments | 1,631             |
| <b>Total</b>                                          | <b>\$ 578,282</b> |

**FEDERAL HOME LOAN BANK**

Federal Home Loan Bank advances had weighted-average rates of 3.25% and 3.68% at September 30, 2010, and December 31, 2009, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 150% of outstanding debt.

**SUBORDINATED BANK NOTES**

Old National Bank's notes are issued under the global note program and are not obligations of, or guaranteed by, Old National Bancorp.

According to capital guidelines, the portion of limited-life capital instruments that is includible in Tier 2 capital is limited with-in five years or less until maturity. As of September 30, 2010, 20%, or \$30 million of the subordinated bank notes qualified as Tier 2 Capital for regulatory purposes. As shown in the table above, the subordinated bank notes mature October 2011. Capital treatment will cease October 2010, or one year prior to the maturity date.



**Table of Contents****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.

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, at any time without limitation. 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 had a cumulative annual distribution rate of 6.27% until March 2010 when it began carrying 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, at any time without limitation.

**CAPITAL LEASE OBLIGATION**

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

At September 30, 2010, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)

|                                             |    |        |
|---------------------------------------------|----|--------|
| 2010 remaining                              | \$ | 99     |
| 2011                                        |    | 390    |
| 2012                                        |    | 390    |
| 2013                                        |    | 390    |
| 2014                                        |    | 410    |
| Thereafter                                  |    | 10,903 |
| Total minimum lease payments                |    | 12,582 |
| Less amounts representing interest          |    | 8,263  |
| Present value of net minimum lease payments | \$ | 4,319  |



**Table of Contents****NOTE 12 EMPLOYEE BENEFIT PLANS****RETIREMENT PLAN**

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five years of employment. The freezing of the plan provides that future salary increases will not be considered. Old National's policy is to contribute at least the minimum funding requirement determined by the plan's actuary. As of September 30, 2010, \$7.4 million of required and discretionary contributions have been made. Old National does not anticipate making any additional contributions to fund its pension plan in 2010.

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

Old National contributed \$177 thousand to cover benefit payments from the Restoration Plan during the first nine months of 2010. Old National expects to contribute an additional \$56 thousand to cover benefit payments from the Restoration Plan during the remainder of 2010.

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

|                                | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
| (dollars in thousands)         | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| Interest cost                  | \$ 498                                      | \$ 493      | \$ 1,492                                   | \$ 1,479    |
| Expected return on plan assets | (490)                                       | (483)       | (1,470)                                    | (1,448)     |
| Recognized actuarial loss      | 401                                         | 363         | 1,203                                      | 1,089       |
| Settlement                     | 350                                         |             | 350                                        |             |
| Net periodic benefit cost      | \$ 759                                      | \$ 373      | \$ 1,575                                   | \$ 1,120    |

**NOTE 13 STOCK-BASED COMPENSATION**

During May 2008, shareholders approved the Company's 2008 Incentive Compensation Plan which authorizes up to a maximum of 1.0 million shares plus certain shares covered under the 1999 Equity Incentive Plan. At September 30, 2010, 1.3 million shares remained available for issuance. The granting of awards to key employees is typically in the form of options to purchase capital stock or restricted stock.

*Stock Options*

The Company did not grant any stock options during the first nine months of 2010. Old National recorded \$0.1 million of stock based compensation expense, net of tax, during the first nine months of 2010 as compared to \$0.2 million for the first nine months of 2009.

*Restricted Stock Awards*

The Company granted 112 thousand time-based restricted stock awards to certain key officers during 2010, with shares vesting at the end of a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of September 30, 2010, unrecognized compensation expense was estimated to be \$2.0 million for unvested restricted share awards.

Old National recorded expense of \$0.6 million, net of tax benefit, during the first nine months of 2010, compared to expense of \$0.6 million during the first nine months of 2009 related to the vesting of restricted share awards. Included in the first nine months of 2010 is the reversal of \$0.1 million of expense associated with certain performance-based restricted stock grants. Included in the first nine months of 2009 is the reversal of \$0.8 million of expense associated with certain performance-based restricted stock grants.



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

The Company granted 137 thousand shares of performance based restricted stock units to certain key officers during 2010, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets.

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

Old National recorded \$0.3 million of stock based compensation expense, net of tax, during the first nine months of 2010. Old National recorded \$0.2 million of stock based compensation expense, net of tax, during the first nine months of 2009. Included in the first nine months of 2010 is the reversal of \$0.2 million of expense associated with certain performance-based restricted stock grants.

**NOTE 14 INCOME TAXES**

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

|                                                  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
| (dollars in thousands)                           | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| Provision at statutory rate of 35%               | \$ 4,776                                    | \$ (260)    | \$ 13,185                                  | \$ 4,753    |
| Tax-exempt income                                | (2,416)                                     | (3,644)     | (7,749)                                    | (11,874)    |
| Reversal of portion of unrecognized tax benefits | (652)                                       | (706)       | (652)                                      | (706)       |
| State income taxes                               | 228                                         | (874)       | 475                                        | (2,355)     |
| Other, net                                       | (187)                                       | 724         | (77)                                       | 705         |
| Income tax expense (benefit)                     | \$ 1,749                                    | \$ (4,760)  | \$ 5,182                                   | \$ (9,477)  |
| Effective tax rate                               | 12.8%                                       | (640.6)%    | 13.8%                                      | (69.8)%     |

For the three and nine months ended September 30, 2010, the effective tax rate was higher than the three and nine months ended September 30, 2009. The higher tax rate in the third quarter and nine months of 2010 is the result of a decrease in tax-exempt income relative to pre-tax income.

No valuation allowance was recorded at September 30, 2010 and 2009 because, based on our current expectations, Old National believes that it will generate sufficient income in the future years to realize deferred tax assets.

**Unrecognized Tax Benefits**

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

| (dollars in thousands)                                                    | <b>2010</b> | <b>2009</b> |
|---------------------------------------------------------------------------|-------------|-------------|
| Balance at January 1                                                      | \$ 8,500    | \$ 7,513    |
| Additions (reductions) based on tax positions related to the current year | (3,348)     | 81          |
| Reductions due to statute of limitations expiring                         | (601)       | (651)       |
| Balance at September 30                                                   | \$ 4,551    | \$ 6,943    |

## **Table of Contents**

Approximately \$0.8 million of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods.

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 2006 statute of limitations expiring. The statute of limitations expired in the third quarter of 2010. As a result, the Company reversed a total of \$0.7 million from its unrecognized tax benefit liability which includes \$0.1 million of interest.

### **NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS**

As part of the Company's overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was \$197.5 million and \$297.5 million at September 30, 2010 and December 31, 2009, respectively. The September 30, 2010 balances consist of \$97.5 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. 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.

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At September 30, 2010, the notional amount of the interest rate lock commitments and forward commitments were \$13.3 million and \$13.4 million, respectively. 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. 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 \$449.1 million and \$449.1 million, respectively, at September 30, 2010. At December 31, 2009, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were \$479.8 million and \$479.8 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps and foreign exchange forward contracts. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

**Table of Contents**

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

|                                                                | Asset Derivatives  |                  |                   |                  |
|----------------------------------------------------------------|--------------------|------------------|-------------------|------------------|
|                                                                | September 30, 2010 |                  | December 31, 2009 |                  |
| (dollars in thousands)                                         | Balance            |                  | Balance           |                  |
|                                                                | Sheet              | Fair             | Sheet             | Fair             |
|                                                                | Location           | Value            | Location          | Value            |
| <b>Derivatives designated as hedging instruments</b>           |                    |                  |                   |                  |
| Interest rate contracts                                        | Other assets       | \$ 8,672         | Other assets      | \$ 1,789         |
| <b>Total derivatives designated as hedging instruments</b>     |                    | <b>\$ 8,672</b>  |                   | <b>\$ 1,789</b>  |
| <b>Derivatives not designated as hedging instruments</b>       |                    |                  |                   |                  |
| Interest rate contracts                                        | Other assets       | \$ 38,255        | Other assets      | \$ 27,749        |
| Foreign exchange contracts                                     | Other assets       |                  | Other assets      | 12               |
| Mortgage contracts                                             | Other assets       | 277              | Other assets      | 370              |
| <b>Total derivatives not designated as hedging instruments</b> |                    |                  |                   | <b>\$ 28,131</b> |
|                                                                |                    | <b>\$ 38,532</b> |                   |                  |
| <b>Total derivative assets</b>                                 |                    | <b>\$ 47,204</b> |                   | <b>\$ 29,920</b> |

|                                                                | Liability Derivatives |                  |                   |                  |
|----------------------------------------------------------------|-----------------------|------------------|-------------------|------------------|
|                                                                | September 30, 2010    |                  | December 31, 2009 |                  |
| (dollars in thousands)                                         | Balance               |                  | Balance           |                  |
|                                                                | Sheet                 | Fair             | Sheet             | Fair             |
|                                                                | Location              | Value            | Location          | Value            |
| <b>Derivatives designated as hedging instruments</b>           |                       |                  |                   |                  |
| Interest rate contracts                                        | Other liabilities     | \$               | Other liabilities | \$ 1,188         |
| <b>Total derivatives designated as hedging instruments</b>     |                       | <b>\$</b>        |                   | <b>\$ 1,188</b>  |
| <b>Derivatives not designated as hedging instruments</b>       |                       |                  |                   |                  |
| Interest rate contracts                                        | Other liabilities     | \$ 38,954        | Other liabilities | \$ 28,279        |
| Foreign exchange contracts                                     | Other liabilities     |                  | Other liabilities | 12               |
| Mortgage contracts                                             | Other liabilities     |                  | Other liabilities |                  |
| <b>Total derivatives not designated as hedging instruments</b> |                       |                  |                   | <b>\$ 28,291</b> |
|                                                                |                       | <b>\$ 38,954</b> |                   |                  |
| <b>Total derivative liabilities</b>                            |                       | <b>\$ 38,954</b> |                   | <b>\$ 29,479</b> |

The effect of derivative instruments on the Consolidated Statement of Income for the three and nine months ended September 30, 2010 and 2009 are as follows:

|  | Three months ended | Three months ended |
|--|--------------------|--------------------|
|--|--------------------|--------------------|

| (dollars in thousands)                                         |                                                                              | <b>September<br/>30, 2010</b>                                              | <b>September 30,<br/>2009</b> |
|----------------------------------------------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------------------|-------------------------------|
| <b>Derivatives in<br/>Fair Value Hedging<br/>Relationships</b> | <b>Location of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> | <b>Amount of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> |                               |
| Interest rate contracts (1)                                    | Interest income / (expense)                                                  | \$ 843                                                                     | \$ 411                        |
| Interest rate contracts (2)                                    | Other income / (expense)                                                     | 238                                                                        | 309                           |
| Total                                                          |                                                                              | \$ 1,081                                                                   | \$ 720                        |
| <b>Derivatives in<br/>Cash Flow Hedging<br/>Relationships</b>  | <b>Location of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> | <b>Amount of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> |                               |
| Interest rate contracts (1)                                    | Interest income / (expense)                                                  | \$ 383                                                                     | \$ 388                        |
| Total                                                          |                                                                              | \$ 383                                                                     | \$ 388                        |
| <b>Derivatives Not Designated as<br/>Hedging Instruments</b>   | <b>Location of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> | <b>Amount of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> |                               |
| Interest rate contracts (1)                                    | Interest income / (expense)                                                  | \$                                                                         | \$                            |
| Interest rate contracts (3)                                    | Other income / (expense)                                                     | 132                                                                        | (984)                         |
| Mortgage contracts                                             | Mortgage banking revenue                                                     | 131                                                                        | (321)                         |
| Total                                                          |                                                                              | \$ 263                                                                     | \$ (1,305)                    |

**Table of Contents**

|                                                                                          |                                                                      | Nine months ended September 30, 2010                               | Nine months ended September 30, 2009 |
|------------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------|
| (dollars in thousands)                                                                   |                                                                      |                                                                    |                                      |
| <b>Derivatives in Fair Value Hedging Relationships</b>                                   | <b>Location of Gain or (Loss) Recognized in Income on Derivative</b> | <b>Amount of Gain or (Loss) Recognized in Income on Derivative</b> |                                      |
| Interest rate contracts (1)                                                              | Interest income / (expense)                                          | \$ 2,750                                                           | \$ 1,167                             |
| Interest rate contracts (2)                                                              | Other income / (expense)                                             | 1,555                                                              | 381                                  |
| Total                                                                                    |                                                                      | \$ 4,305                                                           | \$ 1,548                             |
| <b>Derivatives in Cash Flow Hedging Relationships</b>                                    | <b>Location of Gain or (Loss) Recognized in Income on Derivative</b> | <b>Amount of Gain or (Loss) Recognized in Income on Derivative</b> |                                      |
| Interest rate contracts (1)                                                              | Interest income / (expense)                                          | \$ 1,158                                                           | \$ 860                               |
| Total                                                                                    |                                                                      | \$ 1,158                                                           | \$ 860                               |
| <b>Derivatives Not Designated as Hedging Instruments</b>                                 | <b>Location of Gain or (Loss) Recognized in Income on Derivative</b> | <b>Amount of Gain or (Loss) Recognized in Income on Derivative</b> |                                      |
| Interest rate contracts (1)                                                              | Interest income / (expense)                                          | \$                                                                 | \$ (428)                             |
| Interest rate contracts (3)                                                              | Other income / (expense)                                             | (169)                                                              | (57)                                 |
| Mortgage contracts                                                                       | Mortgage banking revenue                                             | (93)                                                               | 241                                  |
| Total                                                                                    |                                                                      | \$ (262)                                                           | \$ (244)                             |
| (1) Amounts represent the net interest payments as stated in the contractual agreements. |                                                                      |                                                                    |                                      |
| (2) Amounts represent ineffectiveness on derivatives designated as fair value hedges.    |                                                                      |                                                                    |                                      |

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

#### **NOTE 16 COMMITMENTS AND CONTINGENCIES LITIGATION**

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

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

**Table of Contents**

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 permitted 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, which was granted in part and denied in part on August 6, 2010. A new deadline for dispositive motions has been set for October 1, 2011, and the Court has calendared a trial date of February 13, 2012. In addition, the Court has ordered mediation that is currently scheduled for December of 2010. 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 prior periods, Old National entered into sale leaseback transactions for four office buildings in downtown Evansville, Indiana and eighty-eight financial centers. The properties sold had a carrying value of \$163.6 million. Old National received cash proceeds of approximately \$287.7 million, net of selling costs, resulting in a gain of approximately \$124.1 million. Approximately \$119.7 million of the gain was deferred and is being recognized over the term of the leases. The leases have original terms ranging from five to twenty-four years, and Old National has the right, at its option, to extend the term of certain of the leases for four additional successive terms of five years. Under the lease agreements, Old National is obligated to pay base rents of approximately \$25.4 million per year.

In March 2009, Old National acquired the Indiana retail branch banking network of Citizens Financial Group. The network included 65 leased locations. As of September 30, 2010, Old National had closed or merged 19 of these locations into existing branch locations. The leases have terms of less than one year to ten years. Under the remaining lease agreements, Old National is obligated to pay a base rent of approximately \$2.3 million per year.

**CREDIT-RELATED FINANCIAL INSTRUMENTS**

In the normal course of business, Old National's banking affiliates have entered into various agreements to extend credit, including loan commitments of \$1.085 billion and standby letters of credit of \$84.9 million at September 30, 2010. At September 30, 2010, approximately \$1.038 billion of the loan commitments had fixed rates and \$47 million had floating rates, with the fixed interest rates ranging from 0% to 13.25%. At December 31, 2009, loan commitments were \$1.038 billion and standby letters of credit were \$103.2 million. These commitments are not reflected in the consolidated financial statements. At September 30, 2010 and December 31, 2009, the balance of the allowance for unfunded loan commitments was \$3.9 million and \$5.5 million, respectively.

At September 30, 2010 and December 31, 2009, Old National had credit extensions of \$23.9 million and \$25.9 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients. At September 30, 2010 and December 31, 2009, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling \$21.2 million and \$22.8 million, respectively. Old National did not provide collateral for the remaining credit extensions.



**Table of Contents**

**NOTE 17 FINANCIAL GUARANTEES**

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At September 30, 2010, the notional amount of standby letters of credit was \$84.9 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.5 million. 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. During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of \$9.3 million at September 30, 2010.

**NOTE 18 SEGMENT INFORMATION**

Old National operates in two operating segments: community banking and treasury. The community banking segment serves customers in both urban and rural markets providing a wide range of financial services including commercial, real estate and consumer loans; lease financing; checking, savings, time deposits and other depository accounts; cash management services; and debit cards and other electronically accessed banking services and Internet banking. Treasury manages investments, wholesale funding, interest rate risk, liquidity and leverage for Old National. Additionally, treasury provides other miscellaneous capital markets products for its corporate banking clients. Other is comprised of the parent company and several smaller business units including insurance, wealth management and brokerage. It includes unallocated corporate overhead and intersegment revenue and expense eliminations.

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

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

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

**Table of Contents**

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

| (dollars in thousands)                       | <b>Community<br/>Banking</b> | <b>Treasury</b> | <b>Other</b> | <b>Total</b> |
|----------------------------------------------|------------------------------|-----------------|--------------|--------------|
| <b>Three months ended September 30, 2010</b> |                              |                 |              |              |
| Net interest income                          | \$ 63,402                    | \$ (8,305)      | \$ (929)     | \$ 54,168    |
| Provision for loan losses                    | 6,400                        |                 |              | 6,400        |
| Noninterest income                           | 22,119                       | 4,506           | 15,354       | 41,979       |
| Noninterest expense                          | 57,298                       | 3,358           | 15,446       | 76,102       |
| Income (loss) before income taxes            | 21,823                       | (7,157)         | (1,021)      | 13,645       |
| Total assets                                 | 3,828,941                    | 3,567,870       | 109,303      | 7,506,114    |
| <b>Three months ended September 30, 2009</b> |                              |                 |              |              |
| Net interest income                          | \$ 78,037                    | \$ (17,486)     | \$ (4,140)   | \$ 56,411    |
| Provision for loan losses                    | 12,203                       | (12)            |              | 12,191       |
| Noninterest income                           | 23,593                       | 40              | 15,370       | 39,003       |
| Noninterest expense                          | 69,886                       | 780             | 13,300       | 83,966       |
| Income (loss) before income taxes            | 19,541                       | (18,214)        | (2,070)      | (743)        |
| Total assets                                 | 4,372,760                    | 3,484,265       | 116,467      | 7,973,492    |
| <b>Nine months ended September 30, 2010</b>  |                              |                 |              |              |
| Net interest income                          | \$ 187,215                   | \$ (19,984)     | \$ (2,792)   | \$ 164,439   |
| Provision for loan losses                    | 23,706                       |                 | (25)         | 23,681       |
| Noninterest income                           | 66,345                       | 13,139          | 48,461       | 127,945      |
| Noninterest expense                          | 176,081                      | 7,603           | 47,349       | 231,033      |
| Income (loss) before income taxes            | 53,773                       | (14,448)        | (1,655)      | 37,670       |
| Total assets                                 | 3,828,941                    | 3,567,870       | 109,303      | 7,506,114    |
| <b>Nine months ended September 30, 2009</b>  |                              |                 |              |              |
| Net interest income                          | \$ 214,278                   | \$ (32,022)     | \$ (5,880)   | \$ 176,376   |
| Provision for loan losses                    | 41,481                       | 73              | (95)         | 41,459       |
| Noninterest income                           | 70,294                       | 7,548           | 49,002       | 126,844      |
| Noninterest expense                          | 197,557                      | 5,038           | 45,586       | 248,181      |
| Income (loss) before income taxes            | 45,534                       | (29,585)        | (2,369)      | 13,580       |
| Total assets                                 | 4,372,760                    | 3,484,265       | 116,467      | 7,973,492    |

Included in noninterest expense in the Community Banking segment in the nine months ended September 30, 2009 is the FDIC special assessment of approximately \$4.0 million. Expenses related to the acquisition of the Citizens Financial Group branch network of \$0.5 million and \$4.9 million are included in noninterest expense in the three months and nine months ended September 30, 2009, respectively.

**NOTE 19 FAIR VALUE**

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

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

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

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

**Table of Contents**

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

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

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

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

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

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

|                                                 |                | Fair Value Measurements at September 30, 2010                  |                                   |                                           |
|-------------------------------------------------|----------------|----------------------------------------------------------------|-----------------------------------|-------------------------------------------|
|                                                 |                | Using Significant                                              |                                   |                                           |
|                                                 |                | Quoted Prices in Active Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (dollars in thousands)                          | Carrying Value |                                                                |                                   |                                           |
| <b>Financial Assets</b>                         |                |                                                                |                                   |                                           |
| Investment securities available-for-sale:       |                |                                                                |                                   |                                           |
| U.S. Treasury                                   | \$ 51,814      | \$ 51,814                                                      | \$                                | \$                                        |
| U.S. Government-sponsored entities and agencies | 538,148        |                                                                | 538,148                           |                                           |
| Mortgage-backed securities Agency               | 939,787        |                                                                | 939,787                           |                                           |
| Mortgage-backed securities Non-agency           | 162,971        |                                                                | 162,971                           |                                           |
| States and political subdivisions               | 336,993        |                                                                | 336,993                           |                                           |
| Pooled trust preferred securities               | 8,416          |                                                                |                                   | 8,416                                     |
| Other securities                                | 152,675        |                                                                | 152,675                           |                                           |
| Residential loans held for sale                 | 3,512          |                                                                | 3,512                             |                                           |
| Derivative assets                               | 47,204         |                                                                | 47,204                            |                                           |
| <b>Financial Liabilities</b>                    |                |                                                                |                                   |                                           |
| Derivative liabilities                          | 38,954         |                                                                | 38,954                            |                                           |

During the second quarter of 2010, approximately \$143.8 million of municipal securities were transferred from the available-for-sale portfolio to the held-to-maturity portfolio at fair value. There were no other significant transfers into or out of Level 1, Level 2 or Level 3 assets or liabilities during the nine months ended September 30, 2010.



**Table of Contents**

|                                                 | Fair Value Measurements at December 31, 2009 |                                                                |                                   |                                           |
|-------------------------------------------------|----------------------------------------------|----------------------------------------------------------------|-----------------------------------|-------------------------------------------|
|                                                 | Using Significant                            |                                                                | Significant                       |                                           |
|                                                 | Carrying Value                               | Quoted Prices in Active Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (dollars in thousands)                          |                                              |                                                                |                                   |                                           |
| <b>Financial Assets</b>                         |                                              |                                                                |                                   |                                           |
| Investment securities available-for-sale:       |                                              |                                                                |                                   |                                           |
| U.S. Treasury                                   | \$ 1,003                                     | \$ 1,003                                                       | \$                                | \$                                        |
| U.S. Government-sponsored entities and agencies | 914,237                                      |                                                                | 914,237                           |                                           |
| Mortgage-backed securities Agency               | 708,129                                      |                                                                | 708,129                           |                                           |
| Mortgage-backed securities Non-agency           | 174,597                                      |                                                                | 174,597                           |                                           |
| States and political subdivisions               | 534,595                                      |                                                                | 534,595                           |                                           |
| Pooled trust preferred securities               | 12,398                                       |                                                                |                                   | 12,398                                    |
| Other securities                                | 141,260                                      |                                                                | 141,260                           |                                           |
| Residential loans held for sale                 | 17,530                                       |                                                                | 17,530                            |                                           |
| Derivative assets                               | 29,920                                       |                                                                | 29,920                            |                                           |
| <b>Financial Liabilities</b>                    |                                              |                                                                |                                   |                                           |
| Derivative liabilities                          | 29,479                                       |                                                                | 29,479                            |                                           |

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2010:

|                                               | Fair Value Measurements using Significant Unobservable Inputs (Level 3) |
|-----------------------------------------------|-------------------------------------------------------------------------|
| (dollars in thousands)                        |                                                                         |
| Beginning balance, January 1, 2010            | \$ 12,398                                                               |
| Accretion/amortization of discount or premium | (86)                                                                    |
| Payments received                             | (10)                                                                    |
| Credit loss write-downs                       | (311)                                                                   |
| Increase/decrease in fair value of securities | (3,575)                                                                 |
| Ending balance, September 30, 2010            | \$ 8,416                                                                |

Included in the income statement is \$86 thousand of expense included in interest income from the amortization of discounts on securities. The decrease in fair value is reflected in the balance sheet as a decrease in the fair value of investment securities available-for sale, a decrease in accumulated other comprehensive income, which is included in shareholders' equity, and an increase in other assets related to the tax impact.



**Table of Contents**

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

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

Assets measured at fair value on a non-recurring basis are summarized below:

**Fair Value Measurements at September 30, 2010**

|                        |                           | <b>Using<br/>Significant</b>                                                                      |                     |
|------------------------|---------------------------|---------------------------------------------------------------------------------------------------|---------------------|
|                        |                           | <b>Other</b>                                                                                      | <b>Significant</b>  |
|                        |                           | <b>Observable</b>                                                                                 | <b>Unobservable</b> |
|                        |                           | <b>Inputs</b>                                                                                     | <b>Inputs</b>       |
|                        |                           | <b>(Level 2)</b>                                                                                  | <b>(Level 3)</b>    |
| (dollars in thousands) | <b>Carrying<br/>Value</b> | <b>Quoted<br/>Prices in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level 1)</b> |                     |

**Financial Assets**

|                |           |  |           |
|----------------|-----------|--|-----------|
| Impaired loans | \$ 22,032 |  | \$ 22,032 |
|----------------|-----------|--|-----------|

Impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of \$37.1 million, with a valuation allowance of \$15.1 million at September 30, 2010. Old National recorded \$8.2 million of provision expense associated with these loans for the nine months ended September 30, 2010.

**Fair Value Measurements at December 31, 2009**

|                        |                           | <b>Using<br/>Significant</b>                                                                      |                     |
|------------------------|---------------------------|---------------------------------------------------------------------------------------------------|---------------------|
|                        |                           | <b>Other</b>                                                                                      | <b>Significant</b>  |
|                        |                           | <b>Observable</b>                                                                                 | <b>Unobservable</b> |
|                        |                           | <b>Inputs</b>                                                                                     | <b>Inputs</b>       |
|                        |                           | <b>(Level 2)</b>                                                                                  | <b>(Level 3)</b>    |
| (dollars in thousands) | <b>Carrying<br/>Value</b> | <b>Quoted<br/>Prices in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level 1)</b> |                     |

**Financial Assets**

|                |           |           |
|----------------|-----------|-----------|
| Impaired loans | \$ 21,949 | \$ 21,949 |
|----------------|-----------|-----------|

Impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of \$36.4 million, with a valuation allowance of \$14.5 million at December 31, 2009. Old National recorded \$9.6 million of provision expense associated with these loans in 2009.

**Financial instruments recorded using fair value option**

Under FASB ASC 825-10 (SFAS No. 159), 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.

**Table of Contents**

The Company has elected the fair value option for residential mortgage loans held for sale.

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 \$49 thousand and \$172 thousand of interest income for residential loans held for sale for the three and nine months ended September 30, 2010, respectively. Included in the income statement are \$180 thousand and \$527 thousand of interest income for residential loans held for sale for the three and nine months ended September 30, 2009, respectively. Interest expense is recorded based on the contractual amount of interest expense incurred. The income statement includes no interest expense for the three and nine months ended September 30, 2010, respectively, for certain retail certificates of deposit. The income statement includes \$0 thousand and \$73 thousand of interest expense for the three and nine months ended September 30, 2009, 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.

As of September 30 2010, the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected is as follows. Accrued interest at period end is included in the fair value of the instruments.

| (dollars in thousands)          | <b>Aggregate<br/>Fair Value</b> | <b>Difference</b> | <b>Contractual<br/>Principal</b> |
|---------------------------------|---------------------------------|-------------------|----------------------------------|
| Residential loans held for sale | <b>\$ 3,512</b>                 | <b>\$ 81</b>      | <b>\$ 3,431</b>                  |

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets carried at fair value for the three and nine months ended September 30, 2010:

**Changes in Fair Value for the Three Months ended September 30, 2010, for Items  
Measured at Fair Value Pursuant to Election of the Fair Value Option**

| (dollars in thousands)          | <b>Other</b>                  |                            |                               | <b>Total Changes<br/>in Fair Values<br/>Included in<br/>Current<br/>Period<br/>Earnings</b> |
|---------------------------------|-------------------------------|----------------------------|-------------------------------|---------------------------------------------------------------------------------------------|
|                                 | <b>Gains and<br/>(Losses)</b> | <b>Interest<br/>Income</b> | <b>Interest<br/>(Expense)</b> |                                                                                             |
| Residential loans held for sale | <b>\$ (136)</b>               | <b>\$ 2</b>                | <b>\$</b>                     | <b>\$ (134)</b>                                                                             |

**Changes in Fair Value for the Nine Months ended September 30, 2010, for Items  
Measured at Fair Value Pursuant to Election of the Fair Value Option**

| (dollars in thousands)          | <b>Other</b>                  |                            |                               | <b>Total Changes<br/>in Fair Values<br/>Included in<br/>Current<br/>Period<br/>Earnings</b> |
|---------------------------------|-------------------------------|----------------------------|-------------------------------|---------------------------------------------------------------------------------------------|
|                                 | <b>Gains and<br/>(Losses)</b> | <b>Interest<br/>Income</b> | <b>Interest<br/>(Expense)</b> |                                                                                             |
| Residential loans held for sale | <b>\$ (206)</b>               | <b>\$ 3</b>                | <b>\$</b>                     | <b>\$ (203)</b>                                                                             |



**Table of Contents**

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

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

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

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

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

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

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

**Table of Contents**

The carrying amounts and estimated fair values of financial instruments, not previously presented, at September 30, 2010 and December 31, 2009 are as follows:

| (dollars in thousands)                                                | <b>Carrying<br/>Value</b> | <b>Fair<br/>Value</b> |
|-----------------------------------------------------------------------|---------------------------|-----------------------|
| <b>September 30, 2010</b>                                             |                           |                       |
| <b>Financial Assets</b>                                               |                           |                       |
| Cash, due from banks, federal funds sold and money market investments | \$ 172,271                | \$ 172,271            |
| Investment securities held-to-maturity:                               |                           |                       |
| U.S. Government-sponsored entities and agencies                       | 405,152                   | 414,965               |
| Mortgage-backed securities Agency                                     | 130,159                   | 134,444               |
| State and political subdivisions                                      | 217,664                   | 220,630               |
| Other securities                                                      | 860                       | 649                   |
| Federal Home Loan Bank stock                                          | 36,090                    | 36,090                |
| Loans, net (including impaired loans)                                 |                           |                       |
| Commercial                                                            | 1,239,983                 | 1,284,014             |
| Commercial real estate                                                | 952,099                   | 1,003,540             |
| Residential real estate                                               | 480,119                   | 511,903               |
| Consumer credit                                                       | 958,790                   | 1,019,429             |
| Accrued interest receivable                                           | 44,376                    | 44,376                |
| <b>Financial Liabilities</b>                                          |                           |                       |
| Deposits:                                                             |                           |                       |
| Noninterest-bearing demand deposits                                   | \$ 1,267,404              | \$ 1,267,404          |
| NOW, savings and money market deposits                                | 2,553,918                 | 2,553,918             |
| Time deposits                                                         | 1,618,115                 | 1,677,269             |
| Short-term borrowings:                                                |                           |                       |
| Federal funds purchased                                               | 41,364                    | 41,364                |
| Repurchase agreements                                                 | 317,304                   | 317,305               |
| Other short-term borrowings                                           | 9,093                     | 9,093                 |
| Other borrowings:                                                     |                           |                       |
| Junior subordinated debenture                                         | 108,000                   | 110,031               |
| Repurchase agreements                                                 | 50,000                    | 55,206                |
| Federal Home Loan Bank advances                                       | 264,332                   | 281,850               |
| Subordinated bank notes                                               | 150,000                   | 154,826               |
| Capital lease obligation                                              | 4,319                     | 5,290                 |
| Accrued interest payable                                              | 12,042                    | 12,042                |
| Standby letters of credit                                             | 487                       | 487                   |
| <b>Off-Balance Sheet Financial Instruments</b>                        |                           |                       |
| Commitments to extend credit                                          | \$                        | \$ 1,496              |

**Table of Contents**

| (dollars in thousands)                                                |                           |                       |
|-----------------------------------------------------------------------|---------------------------|-----------------------|
|                                                                       | <b>Carrying<br/>Value</b> | <b>Fair<br/>Value</b> |
| <b>December 31, 2009</b>                                              |                           |                       |
| <b>Financial Assets</b>                                               |                           |                       |
| 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                |
| <b>Financial Liabilities</b>                                          |                           |                       |
| 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 |
|------------------------------|----|----------|

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

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

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

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

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.

## **Table of Contents**

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

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

## **PART I. FINANCIAL INFORMATION**

### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion is an analysis of our results of operations for the three and nine months ended September 30, 2010 and 2009, and financial condition as of September 30, 2010, compared to September 30, 2009, and December 31, 2009. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business that are based on estimates and involves certain risks and uncertainties. Therefore, future results could differ significantly from our current expectations and the related forward-looking statements.

#### **EXECUTIVE SUMMARY**

During the third quarter of 2010, net income available to common shareholders was \$11.9 million, compared to \$4.0 million at September 30, 2009. Diluted earnings per share available to common shareholders were \$0.13 per share, compared to diluted earnings per share of \$0.06 in the third quarter of 2009. The provision for loan losses was \$6.4 million for the third quarter of 2010 compared to \$12.2 million for the third quarter of 2009.

Consistent with our strategy to provide our shareholders with consistent quality earnings by deploying capital to acquire other financial institutions through either traditional means or FDIC-assisted transactions, we announced the execution of a definitive agreement to acquire Monroe Bancorp (NASDAQ: MORE), an \$846 million bank with 15 branches throughout central and south central Indiana. This is an all stock transaction valued at approximately \$83.5 million. Management believes the transaction will improve Old National's competitive position in Indiana with Monroe's dominant position in Bloomington, Indiana, home of Indiana University, and its presence in the Indianapolis market. Management believes the transaction will be accretive to earnings after one-time charges through enhanced revenue opportunities and cost reductions.

Credit metrics remain stable. At September 30, 2010, our reserve for loan losses was \$72.1 million, compared to \$69.6 million at September 30, 2009. The allowance for loan losses equaled 103% of nonperforming loans at September 30, 2010 compared to 94% at September 30, 2009. Annualized, net charge-offs were 0.66% of average loans in the third quarter of 2010 compared to 1.25% in the third quarter of 2009.

Expense management continues to be a focal point as the company aims to improve its operating efficiency. Total non-interest expenses have declined \$17.1 million year-over-year. Full time equivalent employees declined 8.6% since September 2009 and eight branches have been closed in 2010 with another three scheduled in November, 2010. As of September 30, 2010, the year-to-date efficiency ratio remained elevated at 76.32% as revenue growth remains challenged due to the slow pace of the economic recovery.

Our balance sheet remains well positioned with regulatory capital ratios above well-capitalized levels and we continue to look at opportunities for franchise growth.

Table of Contents**RESULTS OF OPERATIONS**

The following table sets forth certain income statement information of Old National for the three and nine months ended September 30, 2010 and 2009:

| (dollars in thousands)           | Three Months Ended<br>September 30, |           |             | Nine Months Ended<br>September 30, |            |             |
|----------------------------------|-------------------------------------|-----------|-------------|------------------------------------|------------|-------------|
|                                  | 2010                                | 2009      | %<br>Change | 2010                               | 2009       | %<br>Change |
| <b>Income Statement</b>          |                                     |           |             |                                    |            |             |
| <b>Summary:</b>                  |                                     |           |             |                                    |            |             |
| Net interest income              | \$ 54,168                           | \$ 56,411 | (4.0)%      | \$ 164,439                         | \$ 176,376 | (6.8)%      |
| Provision for loan losses        | 6,400                               | 12,191    | (47.5)      | 23,681                             | 41,459     | (42.9)      |
| Noninterest income               | 41,979                              | 39,003    | 7.6         | 127,945                            | 126,844    | 0.9         |
| Noninterest expense              | 76,102                              | 83,966    | (9.4)       | 231,033                            | 248,181    | (6.9)       |
| <b>Other Data:</b>               |                                     |           |             |                                    |            |             |
| Return on average common equity  | 5.40%                               | 2.53%     |             | 5.02%                              | 4.00%      |             |
| Efficiency ratio                 | 76.64                               | 83.39     |             | 76.32                              | 77.58      |             |
| Tier 1 leverage ratio            | 10.24                               | 10.03     |             | 10.24                              | 10.03      |             |
| Net charge-offs to average loans | 0.66                                | 1.25      |             | 0.76                               | 1.17       |             |

**Net Interest Income**

Net interest income is our most significant component of earnings, comprising over 56% of revenues at September 30, 2010. 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. Factors such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize our mix of assets and funding and our net interest income and margin.

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

| (dollars in thousands)                 | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|----------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                                        | 2010                                | 2009      | 2010                               | 2009       |
| Net interest income                    | \$ 54,168                           | \$ 56,411 | \$ 164,439                         | \$ 176,376 |
| Taxable equivalent adjustment          | 3,154                               | 5,272     | 10,335                             | 16,695     |
| Net interest income taxable equivalent | \$ 57,322                           | \$ 61,683 | \$ 174,774                         | \$ 193,071 |
| Average earning assets                 | 6,700,212                           | 7,020,614 | 6,886,583                          | 7,205,376  |

|                     |                          |              |       |              |       |
|---------------------|--------------------------|--------------|-------|--------------|-------|
| Net interest margin |                          | <b>3.23%</b> | 3.21% | <b>3.18%</b> | 3.26% |
| Net interest margin | fully taxable equivalent | <b>3.42%</b> | 3.51% | <b>3.38%</b> | 3.57% |

**Table of Contents**

Net interest income was \$54.2 million and \$164.4 million for the three and nine months ended September 30, 2010, down from the \$56.4 million and \$176.4 million reported for the three and nine months ended September 30, 2009. Taxable equivalent net interest income was \$57.3 million and \$174.8 million for the three and nine months ended September 30, 2010, down from the \$61.7 million and \$193.1 million reported for the three and nine months ended September 30, 2009. The net interest margin on a fully taxable equivalent basis was 3.42% and 3.38% for the three and nine months ended September 30, 2010, compared to 3.51% and 3.57% for the three and nine months ended September 30, 2009. The decrease in both net interest income and net interest margin is primarily due to the decrease in the yield on interest earning assets being greater than the decrease in the cost of interest-bearing liabilities, combined with a change in the mix of interest earning assets and interest-bearing liabilities. The yield on average earning assets decreased 52 basis points from 5.03% to 4.51% while the cost of interest-bearing liabilities decreased 37 basis points from 1.81% to 1.44% in the quarterly year-over-year comparison. In the year-to-date comparisons, the yield on average assets decreased 55 basis points from 5.11% to 4.56% while the cost of interest-bearing liabilities decreased 34 basis points from 1.85% to 1.51%.

Average earning assets were \$6.700 billion for the three months ended September 30, 2010, compared to \$7.021 billion for the three months ended September 30, 2009, a decrease of 4.6%, or \$320.4 million. Average earning assets were \$6.887 billion for the nine months ended September 30, 2010, compared to \$7.205 billion for the nine months ended September 30, 2009, a decrease of 4.4%, or \$318.8 million. Significantly affecting average earning assets at September 30, 2010 compared to September 30, 2009, was the increase in the size of the investment portfolio combined with the increase in interest earning cash balances at the Federal Reserve and the reduction of the size of the loan portfolio. During the nine months ended September 30, 2010, \$1.130 billion of investment securities were purchased and \$882.0 million of investment securities were called by the issuers or sold. During the third quarter of 2009, approximately \$258.0 million of leases held for sale were sold. In addition, commercial and commercial real estate loans have been affected by continued weak loan demand in our markets, more stringent loan underwriting standards and our desire to lower future potential credit risk by being cautious towards the real estate market. A \$258.8 million decrease in average commercial loans was combined with a \$108.6 million decrease in average commercial real estate 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.

Also positively affecting margin was an increase in noninterest-bearing demand deposits combined with a decrease in time deposits. In the fourth quarter of 2009, \$2.9 million of retail certificates of deposit were called. In the fourth quarter of 2009, we prepaid \$105.0 million of FHLB advances. In the second quarter of 2010, we prepaid a \$25.0 million FHLB advance, a \$24.0 million long-term repurchase agreement and a senior unsecured note totaling \$50.0 million matured. In the third quarter of 2010, we prepaid a \$25.0 million long-term repurchase agreement. Year over year, time deposits and brokered certificates of deposit, which have an average interest rate higher than other types of deposits, have decreased as a percent of total funding. Also, short-term borrowings and other borrowings have decreased as a percent of total funding. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding.

**Provision for Loan Losses**

The provision for loan losses was \$6.4 million for the three months ended September 30, 2010, compared to \$12.2 million for the three months ended September 30, 2009. The provision for loan losses was \$23.7 million for the nine months ended September 30, 2010, compared to \$41.5 million for the nine months ended September 30, 2009. The lower provision in 2010 is primarily attributable to a decrease in net charge-offs combined with a decrease in nonaccrual loans at September 30, 2010 compared to September 30, 2009.

**Noninterest Income**

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products and insurance. Noninterest income for the three months ended September 30, 2010 was \$42.0 million, an increase of \$3.0 million, or 7.6%, from the \$39.0 million reported for the three months ended September 30, 2009. For the nine months ended September 30, 2010, noninterest income was \$127.9 million, an increase of \$1.1 million, or 0.9%, from the \$126.8 million reported for the nine months ended September 30, 2009.



**Table of Contents**

Net securities gains were \$3.2 million and \$9.5 million for the three and nine months ended September 30, 2010, compared to net securities gains of \$40 thousand and \$5.7 million for the three and nine months ended September 30, 2009. Included in the third quarter and first nine months of 2010 are securities gains of \$3.3 million and \$12.8 million, respectively, resulting primarily from management's decision to shorten the duration of the portfolio. The shorter duration will result in lower yields in future periods, but will reduce capital exposure when interest rates begin to rise. Partially offsetting these gains were other-than-temporary-impairment charges of \$39 thousand and \$3.3 million, respectively, on two pooled trust preferred securities and ten non-agency mortgage-backed securities.

Included in the third quarter and first nine months of 2009 were securities gains of \$5.1 million and \$21.0 million, respectively, which were partially offset by other-than-temporary-impairment charges of \$5.1 million and \$15.3 million, respectively, on six pooled trust preferred securities and two non-agency mortgage-backed securities. Service charges and overdraft fees on deposit accounts were \$12.4 million and \$37.5 million for the three and nine months ended September 30, 2010, compared to \$15.1 million and \$41.4 million for the three and nine months ended September 30, 2009. The decrease in revenue is primarily attributable to a decrease in fee income for overdrafts and returned items. Service charges and overdraft fees were negatively impacted by new regulatory requirements in the third quarter of 2010. The negative impact was partially mitigated with adjustments to our product pricing structure late in the third quarter of 2010.

Debit card and ATM fees were \$5.8 million and \$17.3 million for the three and nine months ended September 30, 2010, compared to \$5.4 million and \$15.0 million for the three and nine months ended September 30, 2009. The increase in debit card usage is primarily attributable to the Citizens Financial branch acquisition.

Mortgage banking revenue was \$0.6 million and \$1.8 million for the three and nine months ended September 30, 2010, compared to \$1.5 million and \$5.0 million for the three and nine months ended September 30, 2009. Mortgage fee revenue declined in the quarterly comparison as a result of our decision to retain more mortgage production and sell less to the secondary market. Mortgage fee revenue declined in the year-to-date comparison as a result of lower loan production and our decision to retain more mortgage production and sell less to the secondary market.

Insurance premiums and commissions decreased \$1.3 million for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 primarily as a result of a decrease in contingency income. Revenue from company-owned life insurance was \$1.0 million and \$3.1 million for the three and nine months ended September 30, 2010, compared to \$0.5 million and \$1.6 million for the three and nine months ended September 30, 2009. During the third quarter of 2008, the crediting rate formula for the 1997 company-owned life insurance policy was amended to adopt a more conservative position and improve the overall market to book value ratio. This change resulted in lower revenues in 2009 and while we expect revenues to increase gradually 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 \$0.4 million and \$1.4 million for the three and nine months ended September 30, 2010, respectively, as compared to losses on derivatives of \$0.7 million for the three months ended September 30, 2009 and gains of \$0.3 million for the nine months ended September 30, 2009.

Other income increased \$1.5 million and \$0.9 million for the three and nine months ended September 30, 2010 as compared to the three and nine months ended September 30, 2009. The increase in both the quarterly and year-to-date comparisons was primarily as a result of a \$1.4 million loss from the sale of approximately \$258.0 million of leases held for sale, net of transaction fees, that occurred in the third quarter of 2009.

**Noninterest Expense**

Noninterest expense for the three months ended September 30, 2010, totaled \$76.1 million, a decrease of \$7.9 million, or 9.4%, from the \$84.0 million recorded for the three months ended September 30, 2009. For the nine months ended September 30, 2010, noninterest expense totaled \$231.0 million, a decrease of \$17.2 million, or 6.9%, from the \$248.2 million recorded for the nine months ended September 30, 2009. Decreases in salaries and benefits expense, marketing expense and FDIC assessment expense were the primary reason for the decrease in noninterest expense.



**Table of Contents**

Salaries and benefits is the largest component of noninterest expense. For the three months ended September 30, 2010, salaries and benefits were \$41.7 million compared to \$46.5 million for the three months ended September 30, 2009. For the nine months ended September 30, 2010, salaries and benefits were \$125.2 million compared to \$134.4 million for the nine months ended September 30, 2009. The decrease in salaries and benefits in the quarterly comparison is a result of an 8.6% decline in full time equivalent employees, a \$2.4 million decrease in performance-based incentive compensation expense and a \$1.1 million decrease in profit sharing expense. Partially offsetting these decreases was \$1.3 million of severance expense related to further full time equivalent employee reductions. Included in the first nine months of 2010 is a full nine months of expense associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which occurred in the first quarter of 2009. Offsetting this increase was the effect of the reduction in the number of employees, a \$5.7 million decrease in performance-based incentive compensation expense and a \$2.1 million decrease in profit sharing expense.

Marketing expense decreased \$0.8 million and \$2.6 million for the three and nine months ended September 30, 2010, compared to the three and nine months ended September 30, 2009, primarily as a result of decreases in advertising expense, public relations expense and sales promotion expense due to our cost containment efforts.

Professional fees decreased \$0.5 million and \$1.3 million for the three and nine months ended September 30, 2010 as compared to the three and nine months ended September 30, 2009. The decrease is primarily attributable to legal and other professional fees associated with the acquisition of the Citizens Financial branch network in the first quarter of 2009 and our cost containment efforts.

Supplies expense decreased \$0.2 million and \$1.2 million for the three and nine months ended September 30, 2010, compared to the three and nine months ended September 30, 2009. The decrease is primarily attributable to expenses associated with the acquisition of the retail branch banking network of Citizens Financial Group.

For the nine months ended September 30, 2010, FDIC assessment expense was \$6.2 million compared to \$10.2 million for the nine months ended September 30, 2009. The decrease in the year-to-date comparison is primarily due to the special assessment that the FDIC implemented during the second quarter of 2009, which resulted in approximately \$4.0 million of additional expense during the second quarter of 2009. 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 December 2009. As of September 30, 2010, our prepaid assessment was \$25.4 million and will be expensed over the next two years as the actual FDIC assessments are determined.

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

Other expense for the three months ended September 30, 2010, totaled \$4.2 million, a decrease of \$0.4 million compared to the three months ended September 30, 2009. Other expense for the nine months ended September 30, 2010, totaled \$12.5 million, a decrease of \$0.2 million compared to the nine months ended September 30, 2009. Included in the third quarter of 2010 is approximately \$0.9 million in loss on extinguishment of debt for the prepayment of a long-term repurchase agreement, which was more than offset by a \$1.5 million decrease in provision for unfunded commitments. Included in the nine months ended September 30, 2010 is approximately \$2.3 million in loss on extinguishment of debt for the prepayment of an FHLB advance and two long-term repurchase agreements. Also included in the nine months ended September 30, 2010 is \$0.9 million of expense related to the closing of five branches and associated lease terminations. These were more than offset by a \$2.7 million decrease in provision for unfunded commitments and a \$0.8 million decrease in travel expenses. The decrease in travel expenses is primarily related to the acquisition of the retail branch banking network of Citizens Financial Group in the first quarter of 2009.

**Table of Contents****Provision for Income Taxes**

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was 12.8% for the three months ended September 30, 2010, compared to a benefit of 640.6% for the three months ended September 30, 2009. The provision for income taxes, as a percentage of pre-tax income, was 13.8% for the nine months ended September 30, 2010, compared to a benefit of 69.8% for the nine months ended September 30, 2009. The tax rate increased in the third quarter and first nine months of 2010 as a result of a decrease in tax-exempt income relative to taxable income. See Note 14 to the consolidated financial statements for additional information.

**FINANCIAL CONDITION****Overview**

At September 30, 2010, our assets were \$7.506 billion, a 5.9% decrease compared to September 30, 2009 assets of \$7.973 billion, and an annualized decrease of 8.3% compared to December 31, 2009 assets of \$8.005 billion. The decrease in loan balances and interest earning cash balances over the past twelve months has more than offset the increase in investment securities, reducing our reliance on higher cost deposits and wholesale funding. 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. Year over year, time deposits and brokered certificates of deposit, which have an average interest rate higher than other types of deposits, have decreased as a percent of total funding. Also, short-term borrowings and other borrowings have decreased as a percent of total funding. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding.

**Earning Assets**

Our earning assets are comprised of investment securities, portfolio loans, loans and leases held for sale, money market investments, and interest earning cash balances held at the Federal Reserve. Earning assets were \$6.730 billion at September 30, 2010, a decrease of 6.2% from September 30, 2009.

*Investment Securities*

We classify the majority of our investment securities as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we do have \$130.2 million of 15- and 20-year fixed-rate mortgage pass-through securities, \$405.2 million of U.S. government-sponsored entity and agency securities and \$217.7 million of state and political subdivision securities in our held-to-maturity investment portfolio at September 30, 2010.

At September 30, 2010, the total investment securities portfolio was \$2.981 billion compared to \$2.960 billion at September 30, 2009, an increase of \$20.3 million or 0.7%. Investment securities increased \$62.4 million compared to December 31, 2009, an annualized increase of 2.9%. Investment securities represented 44.3% of earning assets at September 30, 2010, compared to 41.3% at September 30, 2009, and 40.7% at December 31, 2009. 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. Stronger commercial loan demand in the future and management's efforts to deleverage the balance sheet could result in a reduction in the securities portfolio. As of September 30, 2010, management does not intend to sell any available-for-sale securities with an unrealized loss position.

**Table of Contents**

The investment securities available-for-sale portfolio had net unrealized gains of \$35.8 million at September 30, 2010, an increase of \$43.1 million compared to net unrealized losses of \$7.3 million at September 30, 2009, and an increase of \$48.8 million compared to net unrealized losses of \$13.0 million at December 31, 2009. A \$3.3 million charge was recorded during the first nine months of 2010 related to other-than-temporary-impairment on two pooled trust preferred securities and ten non-agency mortgage-backed securities. 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 crisis affecting the banking system and financial markets. See Note 5 to the consolidated financial statements for the impact of other-than-temporary-impairment in other comprehensive income and Note 6 to the consolidated financial statements for details on management's evaluation of securities for other-than-temporary-impairment.

The investment portfolio had an average duration of 3.80% at September 30, 2010, compared to 4.41% at September 30, 2009, and 4.63% at December 31, 2009. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. The annualized average yields on investment securities, on a taxable equivalent basis, were 4.01% for the three months ended September 30, 2010, compared to 4.98% for the three months ended September 30, 2009, and 4.31% for the three months ended December 31, 2009. Average yields on investment securities, on a taxable equivalent basis, were 4.22%, 5.20% and 4.95% for the nine months ended September 30, 2010 and 2009, and for the year ended December 31, 2009.

*Residential Loans Held for Sale*

Residential loans held for sale were \$3.5 million at September 30, 2010, compared to \$11.4 million at September 30, 2009, and \$17.5 million at December 31, 2009. 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. The majority of new loan production during the first nine months of 2010 was retained in our loan portfolio, resulting in lower residential loans held for sale at September 30, 2010.

We elected the fair value option under FASB ASC 825-10 (SFAS No. 159) prospectively for residential loans held for sale. The election was effective for loans originated after January 1, 2008. The aggregate fair value exceeded the unpaid principal balances by \$0.1 million, \$0.3 million and \$0.4 million as of September 30, 2010, December 31, 2009 and September 30, 2009, respectively.

*Finance Leases Held for Sale*

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. Management decided to retain its taxable leases and 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 fair value in the third quarter of 2009. No losses were recorded in connection with the transfer back to the loan portfolio. During 2010, management decided to transfer the remaining leases from held for sale back to the loan portfolio due to decreased levels of loan production. The remaining leases were transferred at the lower of cost or fair value. No losses were recorded in connection with the transfer.

*Commercial and Commercial Real Estate Loans*

Commercial and commercial real estate loans are the second largest classification within earning assets, representing 33.4% of earning assets at September 30, 2010, a decrease from 34.7% at September 30, 2009, and an increase from 32.7% at December 31, 2009. At September 30, 2010, commercial and commercial real estate loans were \$2.248 billion, a decrease of \$240.1 million since September 30, 2009, and a decrease of \$101.7 million since December 31, 2009. In the second quarter of 2010, \$50.9 million of finance leases were moved from held for sale back to the loan portfolio. In addition, weak loan demand in our markets continues to affect loan growth. Our conservative underwriting standards have also contributed to slower loan growth. We continue to be cautious towards the real estate market in an effort to lower credit risk.



## **Table of Contents**

### *Consumer Loans*

At September 30, 2010, consumer loans, including automobile loans, personal and home equity loans and lines of credit, decreased \$153.8 million or 13.7% compared to September 30, 2009, and decreased \$110.3 million or, annualized, 13.6% since December 31, 2009. Payments on existing loans have more than offset new loan production.

### *Residential Real Estate Loans*

Residential real estate loans, primarily 1-4 family properties, have decreased in significance to the loan portfolio over the past five years due to higher levels of loan sales into the secondary market, primarily to private investors. We usually sell the majority of residential real estate loans originated as a strategy to better manage interest rate risk and liquidity. Typically, we sell almost all residential real estate loans servicing released without recourse. However, the majority of new loan production during the first nine months of 2010 was retained in our loan portfolio.

At September 30, 2010, residential real estate loans held in our loan portfolio were \$483.0 million, an increase of \$79.6 million, or 26.3% annualized, from December 31, 2009 and an increase of \$61.3 million, or 14.5%, from September 30, 2009. Over the past twelve months new loan production has been greater than payments on existing loans.

### **Goodwill and Other Intangible Assets**

Goodwill and other intangible assets at September 30, 2010, totaled \$195.6 million, a decrease of \$6.8 million compared to \$202.4 million at September 30, 2009, and a decrease of \$4.6 million compared to \$200.2 million at December 31, 2009. During 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. During the fourth quarter of 2009 we recorded \$0.5 million of impairment of intangibles due to the loss of an insurance client 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 decreased \$20.7 million, or 9.3%, since September 30, 2009, primarily as a result of decreases in receivables and deferred tax assets. Included in other assets at September 30, 2009 is a receivable associated with securities trades that did not settle until early October 2009 and the timing of those payments. Partially offsetting these decreases is an increase in our prepaid FDIC assessment. 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 December 2009. As of September 30, 2010, our prepaid assessment was \$25.4 million and will be expensed over the next two years as the actual FDIC assessments are determined.

Other assets have decreased \$21.8 million, or 13.0% annualized, since December 31, 2009, primarily as a result of decreases in our prepaid FDIC assessment and deferred tax assets. Partially offsetting these decreases is an increase from the fluctuation in the fair value of derivative financial instruments.

### **Funding**

Total funding, comprised of deposits and wholesale borrowings, was \$6.385 billion at September 30, 2010, a decrease of 6.5% from \$6.829 billion at September 30, 2009, and an annualized decrease of 10.5% from \$6.934 billion at December 31, 2009. Included in total funding were deposits of \$5.439 billion at September 30, 2010, a decrease of \$254.9 million, or 4.5%, compared to September 30, 2009, and a decrease of \$464.1 million compared to December 31, 2009. Noninterest-bearing deposits increased 21.2%, or \$221.5 million, compared to September 30, 2009. Time deposits decreased 20.6%, or \$419.8 million, while money market deposits decreased 17.8%, or \$74.5 million, and NOW deposits decreased 4.6%, or \$56.6 million, compared to September 30, 2009. Savings deposits increased 7.7%, or \$74.6 million compared to September 30, 2009. Year over year, we have experienced an increase in noninterest-bearing demand deposits.

**Table of Contents**

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At September 30, 2010, wholesale borrowings, including short-term borrowings and other borrowings, decreased \$188.6 million, or 16.6%, from September 30, 2009 and decreased \$84.2 million, or 10.9%, annualized, from December 31, 2009, respectively. Wholesale funding as a percentage of total funding was 14.8% at September 30, 2010, compared to 16.6% at September 30, 2009, and 14.9% at December 31, 2009. Short-term borrowings have increased \$41.7 million since September 30, 2009 while long-term borrowings have decreased \$230.3 million since September 30, 2009. The public offering of common stock, funds received in the Citizens Financial branch acquisition and proceeds from our finance lease sale have all contributed to less reliance on wholesale funding. In the fourth quarter of 2009, \$105.0 million of FHLB advances were prepaid. In the second quarter of 2010, a senior unsecured note totaling \$50.0 million matured and a \$25.0 million FHLB advance and a \$24.0 million long-term repurchase agreement were prepaid. In the third quarter of 2010, we prepaid a \$25.0 million long-term repurchase agreement.

**Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities have decreased \$54.1 million, or 19.4%, since September 30, 2009, primarily as a result of a decrease in payables associated with a securities trade that did not settle until early October 2009 and the timing of that payment.

**Capital**

Shareholders' equity totaled \$895.7 million at September 30, 2010, compared to \$865.4 million at September 30, 2009, and \$843.8 million at December 31, 2009. These balances include 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. In December 2008, we issued \$100 million of Series T Preferred Stock (as defined below) and Warrants (as defined below) 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 \$0.07 and \$0.21 per share for the three and nine months ended September 30, 2010, respectively, which reduced equity by \$18.3 million. We paid cash dividends of \$0.07 and \$0.37 per share for the three and nine months ended September 30, 2009, respectively, which reduced equity by \$24.4 million. We also accrued dividends on the preferred shares for the three months ended March 31, 2009, which reduced equity by \$1.2 million. We repurchased shares of our stock, reducing shareholders' equity by \$0.5 million during the nine months ended September 30, 2010, and \$0.4 million during the nine months ended September 30, 2009. The repurchases related to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by \$34.4 million during the nine months ended September 30, 2010, and increased equity by \$37.3 million during the nine months ended September 30, 2009. Shares issued for reinvested dividends, stock options, restricted stock and stock compensation plans increased shareholders' equity by \$1.9 million during the nine months ended September 30, 2010, compared to \$4.4 million during the nine months ended September 30, 2009.

**Table of Contents****Capital Adequacy**

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. At September 30, 2010, Old National and its bank subsidiary exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory definition. To be categorized as well-capitalized, the bank subsidiary must maintain at least a total risk-based capital ratio of 10.0%, a Tier 1 risk-based capital ratio of 6.0% and a Tier 1 leverage ratio of 5.0%. Regulatory capital ratios have increased primarily due to the public offering of common stock that raised approximately \$195.7 million, net of issuance costs, during the third quarter of 2009.

As of September 30, 2010, Old National's consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

|                                                     | <b>Regulatory</b> |                      |             |                 |
|-----------------------------------------------------|-------------------|----------------------|-------------|-----------------|
|                                                     | <b>Guidelines</b> | <b>September 30,</b> |             | <b>December</b> |
|                                                     | <b>Minimum</b>    | <b>2010</b>          | <b>2009</b> | <b>31,</b>      |
|                                                     |                   |                      |             | <b>2009</b>     |
| <b>Risk-based capital:</b>                          |                   |                      |             |                 |
| Tier 1 capital to total avg assets (leverage ratio) | 4.00%             | <b>10.24%</b>        | 10.03%      | 9.51%           |
| Tier 1 capital to risk-adjusted total assets        | 4.00              | <b>15.37</b>         | 14.11       | 14.25           |
| Total capital to risk-adjusted total assets         | 8.00              | <b>17.25</b>         | 16.47       | 16.09           |
| Shareholders' equity to assets                      | N/A               | <b>11.93</b>         | 10.85       | 10.54           |

**RISK MANAGEMENT****Overview**

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

**Credit Risk**

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

**Investment Activities**

Within our securities portfolio, the non-agency collateralized mortgage obligations represent the greatest exposure to the current instability in the residential real estate and credit markets. At September 30, 2010, we had non-agency collateralized mortgage obligations with a fair value of \$163.0 million or approximately 7.4% of the available-for-sale securities portfolio. The net unrealized loss on these securities at September 30, 2010, was approximately \$21.6 million.

We expect conditions in the overall residential real estate market 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 September 30, 2010. During the first nine months of 2010, we experienced \$5.7 million of other-than-temporary-impairment losses on ten of these securities, of which \$3.0 million was recorded as a credit loss in earnings and \$2.7 million is included in other comprehensive income. During 2009, we experienced \$39.4 million of other-than-temporary-impairment on these ten securities, of which \$4.4 million was recorded as a credit loss in earnings and \$35.0 million was included in other comprehensive income.

## **Table of Contents**

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 the performance of the underlying collateral. At September 30, 2010, we had pooled trust preferred securities with a fair value of approximately \$8.4 million, or 0.4% of the available-for-sale securities portfolio. During the first nine months of 2010, we experienced \$0.7 million of other-than-temporary-impairment losses on two of these securities, of which \$0.3 million was recorded as a credit loss in earnings and \$0.4 million is included in other comprehensive income. These securities remained classified as available-for-sale and at September 30, 2010, the unrealized loss on our pooled trust preferred securities was approximately \$19.7 million. During 2009, six of these securities experienced \$28.7 million of other-than-temporary-impairment, of which \$20.4 million was recorded as a credit loss in earnings and \$8.3 million was included in other comprehensive income.

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.

Included in the held-to-maturity category at September 30, 2010 are approximately \$130.2 million of agency mortgage-backed securities and \$217.7 million of municipal securities at amortized cost.

### **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 \$131.1 million at September 30, 2010.

### **Lending Activities**

#### **Commercial**

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

Commercial mortgages and construction loans are offered to real estate investors, developers, and builders primarily domiciled in the geographic market areas we serve, primarily Indiana, Illinois and Kentucky. These loans are secured by first mortgages on real estate at loan-to-value ( LTV ) margins deemed appropriate for the property type, quality, location and sponsorship. Generally, these LTV ratios do not exceed 80%. The commercial properties are predominantly non-residential properties such as retail centers, apartments, industrial properties and, to a lesser extent, more specialized properties. Substantially all of our commercial real estate loans are secured by properties located in our primary market area.

In the underwriting of our commercial real estate loans, we obtain appraisals for the underlying properties. Decisions to lend are based on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we primarily emphasize the ratio of the property's projected net cash flows to the loan's debt service requirement. The debt service coverage ratio normally is not less than 120% and it is computed after deduction for a vacancy factor and property expenses as appropriate. In addition, a personal guarantee of the loan or a portion thereof is sometimes required from the principal(s) of the borrower. We require title insurance insuring the priority of our lien, fire, and extended coverage casualty insurance, and flood insurance, if appropriate, in order to protect our security interest in the underlying property. In addition, business interruption insurance or other insurance may be required.



## **Table of Contents**

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

### **Consumer**

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

Home equity loans are secured primarily by second mortgages on residential property of the borrower. The underwriting terms for the home equity product generally permits borrowing availability, in the aggregate, up to 90% of the appraised value of the collateral property at the time of origination. We offer fixed and variable rate home equity loans, with variable rate loans underwritten at fully-indexed rates. Decisions are primarily based on LTV ratios, DTI ratios, liquidity, and credit scores. We do not offer home equity loan products with reduced documentation. Automobile loans include loans and leases secured by new or used automobiles. We originate automobile loans and leases primarily on an indirect basis through selected dealerships. We require borrowers to maintain collision insurance on automobiles securing consumer loans, with us listed as loss payee. Our procedures for underwriting automobile loans include an assessment of an applicant s overall financial capacity, including credit history and the ability to meet existing obligations and payments on the proposed loan. Although an applicant s creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral security to the proposed loan amount.

### **Asset Quality**

Community-based lending personnel, along with region-based independent underwriting and analytic support staff, extend credit under guidelines established and administered by our 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 our policies remain appropriate for the current lending environment.

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. At September 30, 2010, 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.

**Table of Contents**

Summary of under-performing, criticized and classified assets:

|                                                               | <b>September 30,</b> |             | <b>December</b> |
|---------------------------------------------------------------|----------------------|-------------|-----------------|
| (dollars in thousands)                                        | <b>2010</b>          | <b>2009</b> | <b>31,</b>      |
|                                                               |                      |             | <b>2009</b>     |
| Nonaccrual loans                                              |                      |             |                 |
| Commercial                                                    | \$ 25,519            | \$ 26,031   | \$ 24,257       |
| Commercial real estate                                        | 28,547               | 30,851      | 24,854          |
| Residential real estate                                       | 9,009                | 8,385       | 9,621           |
| Consumer                                                      | 6,768                | 8,434       | 8,284           |
| Total nonaccrual loans                                        | 69,843               | 73,701      | 67,016          |
| Renegotiated loans not on nonaccrual                          |                      |             |                 |
| Past due loans (90 days or more and still accruing)           |                      |             |                 |
| Commercial                                                    | 304                  | 994         | 1,754           |
| Commercial real estate                                        |                      | 194         | 72              |
| Residential real estate                                       |                      |             |                 |
| Consumer                                                      | 1,060                | 1,509       | 1,675           |
| Total past due loans                                          | 1,364                | 2,697       | 3,501           |
| Foreclosed properties                                         | 5,886                | 4,213       | 8,149           |
| Total under-performing assets                                 | \$ 77,093            | \$ 80,611   | \$ 78,666       |
| Classified loans (includes nonaccrual, renegotiated, past due |                      |             |                 |
| 90 days and other problem loans)                              | \$ 170,870           | \$ 174,687  | \$ 157,063      |
| Other classified assets (3)                                   | 148,011              | 174,582     | 161,160         |
| Criticized loans                                              | 74,991               | 94,607      | 103,512         |
| Total criticized and classified assets                        | \$ 393,872           | \$ 443,876  | \$ 421,735      |
| Asset Quality Ratios:                                         |                      |             |                 |
| Non-performing loans/total loans (1) (2)                      | 1.89%                | 1.83%       | 1.75%           |
| Under-performing assets/total loans and foreclosed properties |                      |             |                 |
| (1)                                                           | 2.08                 | 2.00        | 2.05            |
| Under-performing assets/total assets                          | 1.03                 | 1.01        | 0.98            |
| Allowance for loan losses/non-performing loans                | 103.30               | 94.37       | 103.78          |

(1) Loans exclude  
residential loans  
held for sale and  
leases held for  
sale.

(2) Non-performing  
loans include  
nonaccrual and  
renegotiated

loans.

- (3) Includes 9 pooled trust preferred securities, 10 non-agency mortgage-backed securities and 1 corporate security at September 30, 2010.

Loan charge-offs, net of recoveries, totaled \$6.1 million for the three months ended September 30, 2010, a decrease of \$6.6 million from the three months ended September 30, 2009. Net charge-offs for the nine months ended September 30, 2010 totaled \$21.1 million compared to \$39.0 million for the nine months ended September 30, 2009. Included in the nine months ended September 30, 2009 is \$0.6 million of charge-offs associated with commercial and commercial real estate loans which were transferred to held for sale and sold during the second quarter of 2009. Annualized, net charge-offs to average loans were 0.66% and 0.76% for the three and nine months ended September 30, 2010, as compared to 1.25% and 1.17% for the three and nine months ended September 30, 2009. Under-performing assets totaled \$77.1 million at September 30, 2010, a decrease of \$3.5 million compared to \$80.6 million at September 30, 2009, and a decrease of \$1.6 million compared to \$78.7 million at December 31, 2009. As a percent of total loans and foreclosed properties, under-performing assets at September 30, 2010, were 2.08%, an increase from the September 30, 2009 ratio of 2.00% and an increase from the December 31, 2009 ratio of 2.05%. Nonaccrual loans were \$69.8 million at September 30, 2010, compared to \$73.7 million at September 30, 2009, and \$67.0 million at December 31, 2009.

In the course of resolving nonperforming loans, we may choose to restructure the contractual terms of certain loans. We attempt to work out an alternative payment schedule with the borrower in order to avoid foreclosure actions. Any loans that are modified are reviewed by us to identify if a troubled debt restructuring ( TDR ) has occurred, which is when for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and could include reduction of the stated interest rate other than normal market rate adjustments, extension of maturity dates, or reduction of principal balance or accrued interest. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit us by increasing the ultimate probability of collection.

## **Table of Contents**

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. All of our troubled debt restructurings were included with nonaccrual loans at September 30, 2010 and consisted of \$4.0 million of commercial loans and \$0.2 million of commercial real estate loans. All of our troubled debt restructurings were included with nonaccrual loans at December 31, 2009 and consisted of \$7.6 million of commercial loans and \$2.4 million of commercial real estate loans.

In addition, the Company modified one loan during the fourth quarter of 2009 that was not considered a troubled debt restructuring. The loan had a balance of \$3.1 million at December 31, 2009. The loan modification was in the commercial loan portfolio and resulted in an insignificant delay in payments, which was considered along with other factors. The loan was paid in full in the third quarter of 2010.

Management will continue its efforts to reduce the level of under-performing loans and will also consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses.

Total classified and criticized assets were \$393.9 million at September 30, 2010, a decrease of \$50.0 million from September 30, 2009, and a decrease of \$27.8 million from December 31, 2009. Other classified assets include \$148.0 million, \$174.6 million and \$161.2 million of investment securities that fell below investment grade rating at September 30, 2010, September 30, 2009 and December 31, 2009, respectively.

### *Allowance for Loan Losses and Reserve for Unfunded Commitments*

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The determination of the allowance is based upon the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events and regulatory guidance.

At September 30, 2010, the allowance for loan losses was \$72.1 million, an increase of \$2.5 million compared to \$69.6 million at September 30, 2009, and an increase of \$2.6 million compared to \$69.5 million at December 31, 2009. The primary reasons for the increase in the allowance from September 30, 2009 to September 30, 2010 were an increase of approximately \$0.6 million in general allocation related to credit deterioration primarily in the commercial loan portfolio combined with an increase in specific loan allocations of \$1.9 million in the commercial portfolio. As a percentage of total loans excluding loans and leases held for sale, the allowance was 1.95% at September 30, 2010, compared to 1.72% at September 30, 2009, and 1.81% at December 31, 2009. The provision for loan losses for the three months ended September 30, 2010, was \$6.4 million compared to \$12.2 million for the three months ended September 30, 2009. The provision for the nine months ended September 30, 2010 was \$23.7 million compared to \$41.5 million for the nine months ended September 30, 2009. The lower provision in 2010 is primarily attributable to a decrease in net charge-offs combined with a decrease in nonaccrual loans at September 30, 2010 compared to September 30, 2009.

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. In accordance with generally accepted accounting principles, the \$3.9 million reserve for unfunded loan commitments is classified as a liability account on the balance sheet. The reserve for unfunded loan commitments was \$5.5 million at December 31, 2009. The decrease from December 31, 2009 is primarily the result of reduced line utilization estimates due to current economic conditions.

**Table of Contents**

**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.

**Table of Contents**

Old National's Board of Directors, through its Funds Management Committee, monitors our interest rate risk. Policy guidelines, in addition to September 30, 2010 and 2009 results are as follows:

**Net Interest Income 12 Month Policies**

|             | <b>Interest Rate Change in Basis Points (bp)</b> |                  |                  |                  |                  |                    |
|-------------|--------------------------------------------------|------------------|------------------|------------------|------------------|--------------------|
|             | <b>Down 300</b>                                  | <b>Down 200</b>  | <b>Down 100</b>  | <b>Up 100</b>    | <b>Up 200</b>    | <b>Up 300</b>      |
| Green Zone  | -12.00%                                          | -6.50%           | -3.00%           | -3.00%           | -6.50%           | -12.00%            |
| Yellow Zone | -12.00% to -15.00%                               | -6.50% to -8.50% | -3.00% to -4.00% | -3.00% to -4.00% | -6.50% to -8.50% | -12.00% to -15.00% |
| Red Zone    | -15.00%                                          | -8.50%           | -4.00%           | -4.00%           | -8.50%           | -15.00%            |
| 9/30/2010   | <b>N/A</b>                                       | <b>N/A</b>       | <b>N/A</b>       | <b>-0.31%</b>    | <b>-0.98%</b>    | <b>-1.38%</b>      |
| 9/30/2009   | N/A                                              | N/A              | N/A              | 2.78%            | 3.79%            | 4.04%              |

**Net Interest Income 24 Month Cumulative Policies**

|             | <b>Interest Rate Change in Basis Points (bp)</b> |                  |                  |                  |                  |                    |
|-------------|--------------------------------------------------|------------------|------------------|------------------|------------------|--------------------|
|             | <b>Down 300</b>                                  | <b>Down 200</b>  | <b>Down 100</b>  | <b>Up 100</b>    | <b>Up 200</b>    | <b>Up 300</b>      |
| Green Zone  | -12.00%                                          | -6.50%           | -3.00%           | -3.00%           | -6.50%           | -12.00%            |
| Yellow Zone | -12.00% to -15.00%                               | -6.50% to -8.50% | -3.00% to -4.00% | -3.00% to -4.00% | -6.50% to -8.50% | -12.00% to -15.00% |
| Red Zone    | -15.00%                                          | -8.50%           | -4.00%           | -4.00%           | -8.50%           | -15.00%            |
| 9/30/2010   | <b>N/A</b>                                       | <b>N/A</b>       | <b>N/A</b>       | <b>1.23%</b>     | <b>1.63%</b>     | <b>2.38%</b>       |
| 9/30/2009   | N/A                                              | N/A              | N/A              | 5.16%            | 6.43%            | 6.67%              |

**Economic Value of Equity Policies**

|             | <b>Interest Rate Change in Basis Points (bp)</b> |                    |                  |                  |                    |                    |
|-------------|--------------------------------------------------|--------------------|------------------|------------------|--------------------|--------------------|
|             | <b>Down 300</b>                                  | <b>Down 200</b>    | <b>Down 100</b>  | <b>Up 100</b>    | <b>Up 200</b>      | <b>Up 300</b>      |
| Green Zone  | -22.00%                                          | -12.00%            | -5.00%           | -5.00%           | -12.00%            | -22.00%            |
| Yellow Zone | -22.00% to -30.00%                               | -12.00% to -17.00% | -5.00% to -7.50% | -5.00% to -7.50% | -12.00% to -17.00% | -22.00% to -30.00% |
| Red Zone    | -30.00%                                          | -17.00%            | -7.50%           | -7.50%           | -17.00%            | -30.00%            |