OLD NATIONAL BANCORP /IN/
Form 10-Q
November 08, 2011

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

**FORM 10-Q**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended September 30, 2011**

o **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** | **35-1539838** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **One Main Street** **Evansville, Indiana** | **47708** |
| (Address of principal executive offices) | (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 þ No o

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

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

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

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

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 94,752,000 shares outstanding at September 30, 2011.

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**OLD NATIONAL BANCORP**
**CONSOLIDATED BALANCE SHEETS**

| (dollars and shares in thousands, except per share data) | September 30, 2011 (unaudited) | December 31, 2010 | September 30, 2010 (unaudited) |
|---|---|---|---|
| **Assets** | | | |
| Cash and due from banks | **$ 194,606** | $ 107,368 | $ 129,169 |
| Money market and other interest-earning investments | **74,623** | 144,184 | 43,102 |
| Total cash and cash equivalents | **269,229** | 251,552 | 172,271 |
| Trading securities at fair value | **2,794** | | |
| Investment securities available-for-sale, at fair value | | | |
| U.S. Treasury | **65,951** | 62,550 | 51,814 |
| U.S. Government-sponsored entities and agencies | **180,934** | 315,133 | 538,148 |
| Mortgage-backed securities | **1,441,585** | 1,071,252 | 1,102,758 |
| States and political subdivisions | **391,202** | 348,924 | 336,993 |
| Other securities | **173,417** | 162,363 | 161,091 |
| Total investment securities available-for-sale | **2,253,089** | 1,960,222 | 2,190,804 |
| Investment securities held-to-maturity, at amortized cost (fair value $517,427, $625,643 and $770,688 respectively) | **493,282** | 638,210 | 753,835 |
| Federal Home Loan Bank stock, at cost | **34,870** | 31,937 | 36,090 |
| Residential loans held for sale, at fair value | **4,710** | 3,819 | 3,512 |
| Loans: | | | |
| Commercial | **1,246,289** | 1,211,399 | 1,266,893 |
| Commercial real estate | **1,128,374** | 942,395 | 981,524 |
| Residential real estate | **865,951** | 664,705 | 482,967 |
| Consumer credit, net of unearned income | **899,446** | 924,952 | 971,756 |
| Covered loans, net of discount | **711,266** | | |
| Total loans | **4,851,326** | 3,743,451 | 3,703,140 |
| Allowance for loan losses | **(65,219)** | (72,309) | (72,149) |
| Allowance for loan losses covered loans | **(303)** | | |
| Net loans | **4,785,804** | 3,671,142 | 3,630,991 |
| FDIC indemnification asset | **168,091** | | |
| Premises and equipment, net | **75,257** | 48,775 | 50,057 |
| Accrued interest receivable | **43,713** | 42,971 | 44,376 |
| Goodwill | **265,985** | 167,884 | 167,884 |
| Other intangible assets | **36,298** | 26,178 | 27,681 |
| Company-owned life insurance | **247,234** | 226,192 | 225,985 |
| Other real estate owned | **9,390** | 5,591 | 5,886 |
| Other real estate owned covered | **31,908** | | |
| Other assets | **211,046** | 189,419 | 196,742 |
| Total assets | **$ 8,932,700** | $ 7,263,892 | $ 7,506,114 |

| | | | |
|---|---|---|---|
| **Liabilities** | | | |
| Deposits: | | | |
| Noninterest-bearing demand | **$ 1,728,548** | $ 1,276,024 | $ 1,267,404 |
| Interest-bearing: | | | |
| NOW | **1,517,117** | 1,297,443 | 1,163,610 |
| Savings | **1,624,786** | 1,079,376 | 1,046,011 |
| Money market | **306,089** | 334,825 | 344,297 |
| Time | **1,690,723** | 1,475,257 | 1,618,115 |
| Total deposits | **6,867,263** | 5,462,925 | 5,439,437 |
| Short-term borrowings | **341,004** | 298,232 | 367,761 |
| Other borrowings | **443,884** | 421,911 | 578,282 |
| FDIC true-up liability | **14,090** | | |
| Accrued expenses and other liabilities | **238,764** | 202,019 | 224,950 |
| Total liabilities | **7,905,005** | 6,385,087 | 6,610,430 |
| **Shareholders Equity** | | | |
| Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding | | | |
| Common stock, $1 stated value, 150,000 shares authorized, 94,752, 87,183 and 87,172 shares issued and outstanding, respectively | **94,752** | 87,183 | 87,172 |
| Capital surplus | **834,060** | 748,873 | 748,292 |
| Retained earnings | **74,312** | 44,018 | 44,404 |
| Accumulated other comprehensive income (loss), net of tax | **24,571** | (1,269) | 15,816 |
| Total shareholders equity | **1,027,695** | 878,805 | 895,684 |
| Total liabilities and shareholders equity | **$ 8,932,700** | $ 7,263,892 | $ 7,506,114 |

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

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**OLD NATIONAL BANCORP**
**CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

| (dollars and shares in thousands, except per share data) | Three Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 |
|---|---|---|---|---|
| **Interest Income** | | | | |
| Loans including fees: | | | | |
| Taxable | **$ 62,706** | $ 43,635 | **$ 165,058** | $ 132,416 |
| Nontaxable | **2,361** | 2,479 | **7,018** | 7,145 |
| Investment securities, available-for-sale: | | | | |
| Taxable | **13,197** | 16,470 | **39,730** | 57,021 |
| Nontaxable | **3,331** | 3,620 | **10,172** | 12,700 |
| Investment securities, held-to-maturity, taxable | **5,487** | 6,671 | **18,039** | 16,230 |
| Money market and other interest-earning investments | **87** | 70 | **341** | 371 |
| Total interest income | **87,169** | 72,945 | **240,358** | 225,883 |
| **Interest Expense** | | | | |
| Deposits | **9,401** | 11,428 | **28,989** | 37,971 |
| Short-term borrowings | **132** | 132 | **390** | 527 |
| Other borrowings | **5,044** | 7,217 | **14,701** | 22,946 |
| Total interest expense | **14,577** | 18,777 | **44,080** | 61,444 |
| Net interest income | **72,592** | 54,168 | **196,278** | 164,439 |
| Provision for loan losses | **(82)** | 6,400 | **6,437** | 23,681 |
| Net interest income after provision for loan losses | **72,674** | 47,768 | **189,841** | 140,758 |
| **Noninterest Income** | | | | |
| Wealth management fees | **5,094** | 3,847 | **15,521** | 12,097 |
| Service charges on deposit accounts | **14,048** | 12,411 | **38,062** | 37,507 |
| ATM fees | **6,766** | 5,821 | **18,736** | 17,278 |
| Mortgage banking revenue | **699** | 644 | **2,560** | 1,765 |
| Insurance premiums and commissions | **8,335** | 8,691 | **27,916** | 27,809 |
| Investment product fees | **2,977** | 2,325 | **8,504** | 6,613 |
| Company-owned life insurance | **1,393** | 1,034 | **3,863** | 3,059 |
| Net securities gains | **2,861** | 3,281 | **5,026** | 12,792 |
| Total other-than-temporary impairment losses | **(140)** | (39) | **(1,872)** | (4,441) |
| Loss recognized in other comprehensive income | **140** | | **1,373** | 1,133 |
| Impairment losses recognized in earnings | | (39) | **(499)** | (3,308) |
| Gain on derivatives | **149** | 370 | **702** | 1,386 |
| Gain on sale leaseback transactions | **1,636** | 1,636 | **4,909** | 4,815 |
| Change in FDIC indemnification asset | **535** | | **535** | |
| Other income | **2,833** | 1,958 | **7,901** | 6,132 |
| Total noninterest income | **47,326** | 41,979 | **133,736** | 127,945 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Noninterest Expense** | | | | | | | | |
| Salaries and employee benefits | | **52,325** | | 41,696 | | **139,930** | | 125,214 |
| Occupancy | | **13,328** | | 11,723 | | **37,826** | | 35,781 |
| Equipment | | **2,878** | | 2,623 | | **8,720** | | 8,049 |
| Marketing | | **1,294** | | 1,527 | | **4,193** | | 4,274 |
| Data processing | | **5,703** | | 5,124 | | **17,538** | | 16,273 |
| Communication | | **2,529** | | 2,329 | | **7,507** | | 7,489 |
| Professional fees | | **5,905** | | 1,600 | | **10,462** | | 5,477 |
| Loan expense | | **1,139** | | 980 | | **3,351** | | 2,996 |
| Supplies | | **646** | | 710 | | **2,191** | | 2,179 |
| Loss on extinguishment of debt | | | | 870 | | | | 2,274 |
| FDIC assessment | | **1,657** | | 2,077 | | **5,621** | | 6,201 |
| Amortization of intangibles | | **2,106** | | 1,501 | | **5,868** | | 4,627 |
| Other expense | | **5,648** | | 3,342 | | **11,634** | | 10,199 |
| Total noninterest expense | | **95,158** | | 76,102 | | **254,841** | | 231,033 |
| Income before income taxes | | **24,842** | | 13,645 | | **68,736** | | 37,670 |
| Income tax expense | | **8,045** | | 1,749 | | **18,490** | | 5,182 |
| Net income | **$** | **16,797** | $ | 11,896 | **$** | **50,246** | $ | 32,488 |
| Net income per common share basic | **$** | **0.18** | $ | 0.13 | **$** | **0.53** | $ | 0.37 |
| Net income per common share diluted | | **0.18** | | 0.13 | | **0.53** | | 0.37 |
| Weighted average number of common shares outstanding basic | | **94,492** | | 86,795 | | **94,468** | | 86,778 |
| Weighted average number of common shares outstanding diluted | | **94,785** | | 86,931 | | **94,722** | | 86,890 |
| Dividends per common share | **$** | **0.07** | $ | 0.07 | **$** | **0.21** | $ | 0.21 |

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

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

| (dollars and shares in thousands) | Common Stock | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders Equity | Comprehensive Income |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2009** | $ 87,182 | $ 746,775 | $ 30,235 | $ (20,366) | $ 843,826 | |
| Comprehensive income | | | | | | |
| Net income | | | 32,488 | | 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 | 29,295 |
| Transferred securities, net of tax | | | | 5,110 | 5,110 | 5,110 |
| Reclassification adjustment on cash flows hedges, net of tax | | | | 845 | 845 | 845 |
| Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax | | | | 932 | 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 | |
| **Balance, September 30, 2010** | $ 87,172 | $ 748,292 | $ 44,404 | $ 15,816 | $ 895,684 | |
| **Balance, December 31, 2010** | **$ 87,183** | **$ 748,873** | **$ 44,018** | **$ (1,269)** | **$ 878,805** | |
| Comprehensive income | | | | | | |
| Net income | | | **50,246** | | **50,246** | **$ 50,246** |
| Other comprehensive income (1) | | | | | | |
| Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax | | | | **25,222** | **25,222** | **25,222** |
| Transferred securities, net of tax | | | | **(783)** | **(783)** | **(783)** |
| Reclassification adjustment on cash flows hedges, net of tax | | | | **(481)** | **(481)** | **(481)** |
| | | | | **1,882** | **1,882** | **1,882** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax | | | | | | |
| Total comprehensive income | | | | | | $ 76,086 |
| Acquisition Monroe Bancorp | **7,575** | **82,495** | | | **90,070** | |
| Dividends common stock | | | **(19,889)** | | **(19,889)** | |
| Common stock issued | **15** | **151** | | | **166** | |
| Common stock repurchased | **(33)** | **(308)** | | | **(341)** | |
| Stock based compensation expense | | **2,551** | | | **2,551** | |
| Stock activity under incentive comp plans | **12** | **298** | **(63)** | | **247** | |
| **Balance, September 30, 2011** | **$ 94,752** | **$ 834,060** | **$ 74,312** | **$ 24,571** | **$ 1,027,695** | |

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

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

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

| (dollars in thousands) | Nine Months Ended September 30, 2011 | 2010 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Net income | **$ 50,246** | $ 32,488 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | **7,269** | 6,948 |
| Amortization and impairment of other intangible assets | **5,868** | 4,627 |
| Net premium amortization on investment securities | **8,060** | 4,860 |
| Change in FDIC indemnification asset | **(535)** | |
| Stock-based compensation expense | **2,551** | 1,702 |
| Provision for loan losses | **6,437** | 23,681 |
| Net securities gains | **(5,026)** | (12,792) |
| Impairment on available-for-sale securities | **499** | 3,308 |
| Gain on sale leasebacks | **(4,909)** | (4,815) |
| Gain on derivatives | **(702)** | (1,386) |
| Net gains on sales and write-downs of loans and other assets | **(1,459)** | (1,131) |
| Loss on extinguishment of debt | | 2,274 |
| Increase in cash surrender value of company owned life insurance | **(3,836)** | (1,333) |
| Residential real estate loans originated for sale | **(70,232)** | (44,404) |
| Proceeds from sale of residential real estate loans | **79,089** | 59,635 |
| Decrease in interest receivable | **5,812** | 4,964 |
| Decrease in other assets | **17,220** | 4,529 |
| Increase (decrease) in accrued expenses and other liabilities | **15,838** | 1,380 |
| Total adjustments | **61,944** | 52,047 |
| Net cash flows provided by operating activities | **112,190** | 84,535 |
| **Cash Flows From Investing Activities** | | |
| Cash and cash equivalents of acquired banks | **398,558** | |
| Purchase of trust assets | **(1,301)** | |
| Net cash paid in FDIC-assisted transaction | **(151,264)** | |
| Purchases of investment securities available-for-sale | **(490,086)** | (873,737) |
| Purchases of investment securities held-to-maturity | | (255,828) |
| Proceeds from the call/repurchase of FHLB stock | **14,587** | |
| Proceeds from maturities, prepayments and calls of investment securities available-for-sale | **379,727** | 752,062 |
| Proceeds from sales of investment securities available-for-sale | **454,110** | 339,629 |
| Proceeds from maturities, prepayments and calls of investment securities held-to-maturity | **147,050** | 37,376 |
| Proceeds from sale of loans | **4,743** | 3,377 |
| Net principal collected from customers | **105,354** | 163,149 |
| Proceeds from sale of premises and equipment and other assets | **413** | 17 |
| Proceeds from sale leaseback of real estate | | 3,697 |

| | | |
|---|---|---|
| Purchases of premises and equipment | **(4,184)** | (6,215) |
| Net cash flows provided by investing activities | **857,707** | 163,527 |
| **Cash Flows From Financing Activities** | | |
| Net increase (decrease) in deposits and short-term borrowings: | | |
| Noninterest-bearing demand deposits | **129,007** | 79,061 |
| Savings, NOW and money market deposits | **(59,887)** | (153,673) |
| Time deposits | **(762,052)** | (389,439) |
| Short-term borrowings | **(27,411)** | 36,617 |
| Payments for maturities on other borrowings | **(725)** | (75,674) |
| Proceeds from issuance of other borrowings | | 50,000 |
| Payments related to retirement of debt | **(211,228)** | (101,356) |
| Cash dividends paid on common stock | **(19,889)** | (18,268) |
| Common stock repurchased | **(341)** | (483) |
| Proceeds from exercise of stock options, including tax benefit | **140** | 12 |
| Common stock issued | **166** | 136 |
| Net cash flows used in financing activities | **(952,220)** | (573,067) |
| Net increase (decrease) in cash and cash equivalents | **17,677** | (325,005) |
| Cash and cash equivalents at beginning of period | **251,552** | 497,276 |
| **Cash and cash equivalents at end of period** | **$ 269,229** | $ 172,271 |
| Supplemental cash flow information: | | |
| Total interest paid | **$ 44,814** | $ 62,181 |
| Total taxes paid (net of refunds) | **$ 4,605** | $ (2,775) |

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

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**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, 2011 and 2010, and December 31, 2010, and the results of its operations for the three and nine months ended September 30, 2011 and 2010. 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, 2010.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2011 presentation. Such reclassifications had no effect on net income or shareholders equity.

**NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

***FASB ASC 350*** In December 2010, the FASB issued an update (ASU No. 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts) impacting FASB ASC 350-20, Intangibles Goodwill and Other Goodwill. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For these reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. This update became effective for the Company for interim and annual reporting periods beginning after December 15, 2010 and did not have a material impact on the consolidated financial statements or results of operations.

***FASB ASC 805*** In December 2010, the FASB issued an update (ASU No. 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations) impacting FASB ASC 805-10, Business Combinations Overall. The amendments specify that if an entity presents comparative financial statements, the entity should disclose pro forma information, including pro forma revenue and earnings, for the combined entity as though the business combination that occurred in the current year had occurred as of the beginning of the comparable prior annual reporting period. Supplemental pro forma disclosures should include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This update became effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010.

***FASB ASC 310*** In April 2011, the FASB issued an update (ASU No. 2011-02, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring) impacting FASB ASC 310-40, Troubled Debt Restructurings by Creditors. The amendments specify that in evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following conditions exist: the restructuring constitutes a concession and the debtor is experiencing financial difficulties. The amendments clarify the guidance on these points and give examples of both conditions. This update became effective for the Company for interim or annual reporting periods beginning on or after June 15, 2011 and did not have a material impact on the consolidated financial statements or results of operations.

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***FASB ASC 860*** In April 2011, the FASB issued an update (ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements) impacting FASB ASC 860-10, Transfers and Servicing Overall. The amendments remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. This update becomes effective for the Company for interim and annual reporting periods beginning on or after December 15, 2011. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

***FASB ASC 820*** In May 2011, the FASB issued an update (ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs) impacting FASB ASC 820, Fair Value Measurement. The amendments in this update will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards ( IFRSs ). Among the many areas affected by this update are the concept of highest and best use, the fair value of an instrument included in shareholders equity and disclosures about fair value measurement, especially disclosures about fair value measurements categorized within Level 3 of the fair value hierarchy. This update becomes effective for the Company for interim and annual reporting periods beginning after December 15, 2011. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

***FASB ASC 220*** In June 2011, the FASB issued an update (ASU No. 2011-05, Presentation of Comprehensive Income) impacting FASB ASC 220, Comprehensive Income. The amendments in this update eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. An entity will have the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. An entity will be required to present on the face of financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income. This update becomes effective for the Company for interim and annual reporting periods beginning after December 15, 2011. The Company is currently evaluating the alternative options for presentation established in the new guidance.

***FASB ASC 350*** In September 2011, the FASB issued an update (ASU No. 2011-08, Testing Goodwill for Impairment) impacting FASB ASC 350-20, Intangibles Goodwill and Other. The amendments in this update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If after assessing the totality of events or circumstances, it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. If an entity concludes that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, the entity is required to perform the first step of the two-step impairment. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss. This update is effective for the Company for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

**NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY**

Acquisitions

Integra Bank N.A.

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. ( Integra ) in an FDIC assisted transaction. As part of the purchase and assumption agreement, the Company and the FDIC entered into loss sharing agreements (each, a loss sharing agreement and collectively, the loss sharing agreements ), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), other real estate owned ( OREO ) and certain accrued interest on loans for up to 90 days.

The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0% reimbursement, and 80% of losses in excess of $467.2 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC has reimbursed the Bank under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

Integra was a full service community bank headquartered in Evansville, Indiana that operated 52 branch locations. We entered into this transaction due to the attractiveness in the pricing of the acquired loan portfolio, including the indemnification assets, and the attractiveness of immediate low cost core deposits. We also believed there were opportunities to enhance income and improve efficiencies. We believe participating with the FDIC in this assisted transaction was advantageous to the Company.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the July 29, 2011 acquisition date. The application of the acquisition method of accounting resulted in the recognition of $29.7 million of goodwill and $4.3 million of core deposit intangible. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired and is influenced significantly by the FDIC-assisted transaction process. Goodwill of $29.0 million is deductible for income tax purposes.

Due primarily to the significant amount of fair value adjustments and the FDIC loss sharing agreements put in place, historical results for Integra are not meaningful to the Company s results and thus no pro forma information is presented.

A summary, at fair value, of the assets acquired and liabilities assumed in the Integra transaction, as of the acquisition date, is as follows:

| (dollars in thousands) | |
|---|---|
| **Assets Acquired** | |
| Cash and cash equivalents | $ 314,954 |
| Investment securities available for sale | 452,478 |
| Federal Home Loan Bank stock, at cost | 15,226 |
| Federal Reserve Bank stock, at cost | 1,222 |
| Residential loans held for sale | 1,690 |
| Loans covered | 727,330 |
| Loans non-covered | 56,828 |
| Premises and equipment | 10,474 |
| Other real estate owned | 34,055 |
| Accrued interest receivable | 4,751 |
| Goodwill | 29,673 |
| Other intangible assets | 4,291 |
| FDIC indemnification asset | 167,948 |
| Other assets | 11,169 |
| Assets acquired | $ 1,832,089 |
| **Liabilities Assumed** | |
| Deposits | $ 1,443,209 |
| Short-term borrowings | 7,654 |

| | |
|---|---|
| Other borrowings | 192,895 |
| FDIC settlement payable | 161,520 |
| Other liabilities | 26,811 |
| Liabilities assumed | $ 1,832,089 |

Trust Business of Integra Bank

On June 1, 2011, Old National Bancorp s wholly owned trust subsidiary, American National Trust and Investment Management Company d/b/a Old National Trust Company ( ONTC ), acquired the trust business of Integra Bank, N.A. in a transaction unrelated to the previously noted FDIC transaction. As of the closing, the trust business had approximately $328 million in assets under management. This transaction brings the total assets under management by Old National s Wealth Management division to approximately $4.4 billion. Old National paid Integra $1.3 million in an all cash transaction and anticipates acquisition-related costs will approximate $150 thousand. Old National recorded $1.3 million of customer relationship intangible assets which will be amortized on an accelerated basis over 12 years and is included in the Other segment, as described in Note 20 of the consolidated financial statement footnotes.

Monroe Bancorp

On January 1, 2011, Old National acquired 100% of Monroe Bancorp ( Monroe ) in an all stock transaction. Monroe was headquartered in Bloomington, Indiana and had 15 banking centers. The acquisition increases Old National s market position to number 1 in Bloomington and strengthens its position as the third largest branch network in Indiana. Pursuant to the merger agreement, the shareholders of Monroe received approximately 7.6 million shares of Old National Bancorp stock valued at approximately $90.1 million.

Under the acquisition method of accounting, the total estimated purchase price is allocated to Monroe s net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. Based on management s preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on estimates and assumptions that are subject to change, the purchase price for the Monroe acquisition is allocated as follows (in thousands):

| | |
|---|---|
| Cash and cash equivalents | $ 83,604 |
| Investment securities | 153,594 |
| Loans | 453,366 |
| Premises and equipment | 19,738 |
| Accrued interest receivable | 1,804 |
| Company-owned life insurance | 17,206 |
| Other assets | 41,538 |
| Deposits | (653,813) |
| Short-term borrowings | (62,529) |
| Other borrowings | (37,352) |
| Accrued expenses and other liabilities | (6,000) |
| Net tangible assets acquired | 11,156 |
| Definite-lived intangible assets acquired | 10,485 |
| Goodwill | 68,429 |
| Purchase price | $ 90,070 |

Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively.

Of the total estimated purchase price, an estimate of $11.2 million has been allocated to net tangible assets acquired and $10.5 million has been allocated to definite-lived intangible assets acquired. The remaining purchase price has been allocated to goodwill. The goodwill will not be deductible for tax purposes and is included in the Community Banking and Other segments, as described in Note 20 of these consolidated financial statement footnotes.

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The components of the estimated fair value of the acquired identifiable intangible assets are in the table below. These intangible assets will be amortized on an accelerated basis over their estimated lives and are included in the Community Banking and Other segments, as described in Note 20 of these consolidated financial statement footnotes.

| | Estimated Fair Value (in millions) | Estimated Useful Lives (Years) |
|---|---|---|
| Core deposit intangible | $ 8.2 | 10 |
| Trust customer relationship intangible | $ 2.3 | 12 |

Divestiture

On October 13, 2011, Old National announced the signing of an agreement to sell the deposits of four former Integra Bank branches located in the Chicago area to First Midwest Bank. As such, these deposits are considered held for sale as of September 30, 2011. The deposits totaled approximately $185.0 million. First Midwest Bank has agreed to pay Old National 50 basis points, or approximately $0.5 million, on the transaction deposits at these four locations. Old National will retain all of the loans. The transaction is expected to close around December 3, 2011.

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**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, except per share data) | Three Months Ended September 30, 2011 | Three Months Ended September 30, 2010 |
|---|---|---|
| **Basic Earnings Per Share** | | |
| Net income | **$ 16,797** | $ 11,896 |
| Weighted average common shares outstanding | **94,492** | 86,795 |
| **Basic Earnings Per Share** | **$ 0.18** | $ 0.13 |
| **Diluted Earnings Per Share** | | |
| Net income | **$ 16,797** | $ 11,896 |
| Weighted average common shares outstanding | **94,492** | 86,795 |
| Effect of dilutive securities: | | |
| Restricted stock (1) | **277** | 126 |
| Stock options (2) | **16** | 10 |
| Weighted average shares outstanding | **94,785** | 86,931 |
| **Diluted Earnings Per Share** | **$ 0.18** | $ 0.13 |

| (dollars and shares in thousands, except per share data) | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 |
|---|---|---|
| **Basic Earnings Per Share** | | |
| Net income | **$ 50,246** | $ 32,488 |
| Weighted average common shares outstanding | **94,468** | 86,778 |
| **Basic Earnings Per Share** | **$ 0.53** | $ 0.37 |
| **Diluted Earnings Per Share** | | |
| Net income | **$ 50,246** | $ 32,488 |
| Weighted average common shares outstanding | **94,468** | 86,778 |
| Effect of dilutive securities: | | |
| Restricted stock (1) | **233** | 101 |
| Stock options (2) | **21** | 11 |

| | | | | |
|---|---|---|---|---|
| Weighted average shares outstanding | | **94,722** | | 86,890 |
| **Diluted Earnings Per Share** | **$** | **0.53** | $ | 0.37 |

(1) 2 and 0 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, 2011 and 2010, respectively, because the effect would be antidilutive. 5 and 70 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, 2011 and 2010, respectively, because the effect would be antidilutive.

(2) Options to purchase 4,626 shares and 6,001 shares outstanding at September 30, 2011 and 2010, respectively, were not included in the computation of net income per diluted share for the third quarter ended September 30, 2011 and 2010, 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. Options to purchase 4,605 and 6,001 shares outstanding at September 30, 2011 and 2010, respectively, were not included in the computation of net income per diluted share for the nine months ended September 30, 2011 and 2010, 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.

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## 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, 2011 and 2010:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | **2011** | **2010** | **2011** | **2010** |
| Net income | **$ 16,797** | $ 11,896 | **$ 50,246** | $ 32,488 |
| Other comprehensive income | | | | |
| Change in securities available for sale: | | | | |
| Unrealized holding gains arising during the period | **16,032** | 26,709 | **47,324** | 68,779 |
| Reclassification for securities transferred to held-to-maturity | | | | (9,371) |
| Reclassification adjustment for securities gains realized in income | **(2,861)** | (3,281) | **(5,026)** | (12,792) |
| Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income | **(140)** | | **(1,373)** | (1,133) |
| Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income | | 39 | **499** | 3,308 |
| Income tax effect | **(5,149)** | (9,176) | **(16,202)** | (19,496) |
| Change in securities held-to-maturity: | | | | |
| Fair value adjustment for securities transferred from available-for-sale | | | | 9,371 |
| Amortization of fair value previously recognized into accumulated other comprehensive income | **(337)** | (416) | **(1,304)** | (860) |
| Income tax effect | **134** | 166 | **521** | (3,401) |
| Cash flow hedges: | | | | |
| Net unrealized derivative gains (losses) on cash flow hedges | **(412)** | 201 | **(1,021)** | 1,190 |
| Reclassification adjustment on cash flow hedges | **72** | 72 | **216** | 216 |
| Income tax effect | **137** | (109) | **324** | (561) |
| Defined benefit pension plans: | | | | |
| Amortization of net loss recognized in income | **1,154** | 750 | **3,137** | 1,552 |
| Income tax effect | **(461)** | (299) | **(1,255)** | (620) |
| Total other comprehensive income | **8,169** | 14,656 | **25,840** | 36,182 |
| Comprehensive income | **$ 24,966** | $ 26,552 | **$ 76,086** | $ 68,670 |

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The following tables summarize the changes within each classification of accumulated other comprehensive income ( AOCI ) for the nine months ended September 30, 2011 and 2010:

| (dollars in thousands) | AOCI at December 31, 2010 | Other Comprehensive Income | AOCI at September 30, 2011 |
|---|---|---|---|
| Unrealized gains on available-for-sale securities | **$ 31,962** | **$ 26,058** | **$ 58,020** |
| Unrealized losses on securities for which other-than-temporary-impairment has been recognized | **(28,173)** | **(836)** | **(29,009)** |
| Unrealized gains (losses) on held-to-maturity securities | **5,667** | **(783)** | **4,884** |
| Unrecognized gain (loss) on cash flow hedges | **846** | **(481)** | **365** |
| Defined benefit pension plans | **(11,571)** | **1,882** | **(9,689)** |
| Accumulated other comprehensive income (loss) | **$ (1,269)** | **$ 25,840** | **$ 24,571** |

| (dollars in thousands) | AOCI at December 31, 2009 | Other Comprehensive Income | AOCI at September 30, 2010 |
|---|---|---|---|
| Unrealized gains on available-for-sale securities | $ 19,789 | $ 29,967 | $ 49,756 |
| Unrealized losses on securities for which other-than-temporary-impairment has been recognized | (27,501) | (672) | (28,173) |
| Unrealized gains (losses) on held-to-maturity securities | 812 | 5,110 | 5,922 |
| Unrecognized gain 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 |

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**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, 2011 and December 31, 2010 and the corresponding amounts of unrealized gains and losses therein:

| (dollars in thousands) | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **September 30, 2011** | | | | |
| **Available-for-sale** | | | | |
| U.S. Treasury | **$ 65,260** | **$ 691** | **$** | **$ 65,951** |
| U.S. Government-sponsored entities and agencies | **178,387** | **2,547** | | **180,934** |
| Mortgage-backed securities Agency | **1,312,193** | **34,705** | **(364)** | **1,346,534** |
| Mortgage-backed securities Non-agency | **98,570** | **532** | **(4,051)** | **95,051** |
| States and political subdivisions | **365,305** | **26,051** | **(154)** | **391,202** |
| Pooled trust preferrred securities | **27,346** | | **(19,816)** | **7,530** |
| Other securities | **158,224** | **9,684** | **(2,021)** | **165,887** |
| Total available-for-sale securities | **$ 2,205,285** | **$ 74,210** | **$ (26,406)** | **$ 2,253,089** |
| **Held-to-maturity** | | | | |
| U.S. Government-sponsored entities and agencies | **$ 177,963** | **$ 11,654** | **$** | **$ 189,617** |
| Mortgage-backed securities Agency | **91,622** | **3,750** | | **95,372** |
| States and political subdivisions | **216,643** | **8,848** | **(107)** | **225,384** |
| Other securities | **7,054** | | | **7,054** |
| Total held-to-maturity securities | **$ 493,282** | **$ 24,252** | **$ (107)** | **$ 517,427** |
| **December 31, 2010** | | | | |
| **Available-for-sale** | | | | |
| U.S. Treasury | $ 62,206 | $ 371 | $ (27) | $ 62,550 |
| U.S. Government-sponsored entities and agencies | 315,922 | 1,612 | (2,401) | 315,133 |
| Mortgage-backed securities Agency | 922,005 | 22,926 | (485) | 944,446 |
| Mortgage-backed securities Non-agency | 134,168 | 1,018 | (8,380) | 126,806 |
| States and political subdivisions | 343,970 | 7,503 | (2,549) | 348,924 |
| Pooled trust preferrred securities | 27,368 | | (18,968) | 8,400 |
| Other securities | 148,203 | 7,816 | (2,056) | 153,963 |
| Total available-for-sale securities | $ 1,953,842 | $ 41,246 | $ (34,866) | $ 1,960,222 |
| **Held-to-maturity** | | | | |
| U.S. Government-sponsored entities and agencies | $ 303,265 | $ 2,247 | $ (3,703) | $ 301,809 |
| Mortgage-backed securities Agency | 117,013 | 2,577 | (510) | 119,080 |
| States and political subdivisions | 217,381 | 1 | (13,003) | 204,379 |
| Other securities | 551 | | (176) | 375 |
| Total held-to-maturity securities | $ 638,210 | $ 4,825 | $ (17,392) | $ 625,643 |

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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, 2011 | | Weighted |
|---|---|---|---|
| | Amortized | Fair | Average |
| **Maturity** | **Cost** | **Value** | **Yield** |
| **Available-for-sale** | | | |
| Within one year | **$ 172,177** | **$ 175,012** | **3.02%** |
| One to five years | **1,343,097** | **1,373,701** | **2.62** |
| Five to ten years | **219,497** | **231,257** | **4.11** |
| Beyond ten years | **470,514** | **473,119** | **4.92** |
| Total | **$ 2,205,285** | **$ 2,253,089** | **3.29%** |
| **Held-to-maturity** | | | |
| Within one year | **$ 4,113** | **$ 4,112** | **1.49%** |
| One to five years | **96,402** | **100,192** | **3.58** |
| Five to ten years | **12,505** | **13,259** | **4.05** |
| Beyond ten years | **380,262** | **399,864** | **4.08** |
| Total | **$ 493,282** | **$ 517,427** | **3.96%** |

The following table summarizes the investment securities with unrealized losses at September 30, 2011 and December 31, 2010 by aggregated major security type and length of time in a continuous unrealized loss position:

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **September 30, 2011** | | | | | | |
| **Available-for-Sale** | | | | | | |
| Mortgage-backed securities Agency | **$ 130,244** | **$ (364)** | **$ 3** | **$** | **$ 130,247** | **$ (364)** |
| Mortgage-backed securities Non-agency | **9,685** | **(439)** | **62,079** | **(3,612)** | **71,764** | **(4,051)** |
| States and political subdivisions | **2,780** | **(154)** | | | **2,780** | **(154)** |
| Pooled trust preferrred securities | | | **7,531** | **(19,816)** | **7,531** | **(19,816)** |
| Other securities | **8,222** | **(127)** | **6,173** | **(1,894)** | **14,395** | **(2,021)** |
| Total available-for-sale | **$ 150,931** | **$ (1,084)** | **$ 75,786** | **$ (25,322)** | **$ 226,717** | **$ (26,406)** |
| **Held-to-Maturity** | | | | | | |
| States and political subdivisions | **$** | **$** | **$ 13,324** | **$ (107)** | **$ 13,324** | **$ (107)** |
| Total held-to-maturity | **$** | **$** | **$ 13,324** | **$ (107)** | **$ 13,324** | **$ (107)** |
| **December 31, 2010** | | | | | | |
| **Available-for-Sale** | | | | | | |
| U.S. Treasury | $ 10,944 | $ (27) | $ | $ | $ 10,944 | $ (27) |
| U.S. Government-sponsored entities and agencies | 120,404 | (2,401) | | | 120,404 | (2,401) |
| Mortgage-backed securities Agency | 160,784 | (485) | 483 | | 161,267 | (485) |
| Mortgage-backed securities Non-agency | 13,265 | (1,696) | 79,327 | (6,684) | 92,592 | (8,380) |
| States and political subdivisions | 94,448 | (2,549) | | | 94,448 | (2,549) |
| Pooled trust preferrred securities | | | 8,400 | (18,968) | 8,400 | (18,968) |
| Other securities | 12,283 | (206) | 6,204 | (1,850) | 18,487 | (2,056) |
| Total available-for-sale | $ 412,128 | $ (7,364) | $ 94,414 | $ (27,502) | $ 506,542 | $ (34,866) |
| **Held-to-Maturity** | | | | | | |
| U.S. Government-sponsored entities and agencies | $ 111,975 | $ (3,703) | $ | $ | $ 111,975 | $ (3,703) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Mortgage-backed securities | | | | | | |
| Agency | 67,837 | (510) | | | 67,837 | (510) |
| States and political subdivisions | 203,093 | (13,003) | | | 203,093 | (13,003) |
| Other securities | | | 375 | (176) | 375 | (176) |
| Total held-to-maturity | $ 382,905 | $ (17,216) | $ 375 | $ (176) | $ 383,280 | $ (17,392) |

Proceeds from sales and calls of securities available for sale were $763.5 million and $882.0 million for the nine months ended September 30, 2011 and 2010, respectively. Gains of $6.0 million and $13.1 million were realized on these sales during 2011 and 2010, respectively, and offsetting losses of $1.0 million and $0.3 million were realized on these sales during 2011 and 2010. Also included in net securities gains for the first nine months of 2011 is $1 thousand of gains associated with the trading securities and other-than-temporary impairment charges related to credit loss on three non-agency mortgage-backed securities in the amount of $0.5 million, described below. Impacting earnings in the first nine months of 2010 were 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. Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled $2.8 million at September 30, 2011.

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, 2011, Old National s security portfolio consisted of 1,060 securities, 64 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:

<u>Non-agency Mortgage-backed Securities</u>

At September 30, 2011, the Company s securities portfolio contained 14 non-agency collateralized mortgage obligations with a fair value of $95.1 million which had net unrealized losses of approximately $3.5 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, 2011, nine of these securities were rated below investment grade with grades ranging from B to CC. One of the nine securities is rated B and has a fair value of $14.3 million, three of the securities are rated CCC with a fair value of $27.8 million and five of the securities are rated CC with a fair value of $36.4 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 $0.5 million of credit losses on three of these securities for the nine months ended September 30, 2011. The fair value of these non-agency mortgage-backed securities remaining at September 30, 2011 was $78.5 million.

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Based on an analysis of the underlying collateral, Old National recorded $3.0 million of credit losses on ten non-agency mortgage-backed 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.

Pooled Trust Preferred Securities

At September 30, 2011, the Company s securities portfolio contained nine pooled trust preferred securities with a fair value of $7.5 million and unrealized losses of $19.8 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 $8.3 million at September 30, 2011. These securities were rated A2 and A3 at inception, but at September 30, 2011, one security was rated BB, four securities were rated C and two securities 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, 2011, our model indicated no other-than-temporary-impairment losses on these securities.

Two of our pooled trust preferred securities with a fair value of $2.7 million and unrealized losses of $11.5 million at September 30, 2011 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, 2010, our model indicated other-than-temporary-impairment losses on two securities of $0.3 million, which was recorded as a credit loss in earnings. At September 30, 2010, the fair value of these two securities was $1.1 million and they remained classified as available for sale.

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

The table below summarizes the relevant characteristics of our nine pooled trust preferred securities as well as four single issuer trust preferred securities. 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.

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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.

| **Trust preferred securities September 30, 2011 (Dollars in Thousands)** | Class | Lowest Credit Rating (1) | Amortized Cost | Fair Value | Unrealized Gain/ (Loss) | Realized Losses 2011 | # of Issuers Currently Performing/ Remaining | Actual Deferrals and Defaults as a Percent of Original Collateral | Expected Defaults as a % of Remaining Performing Collateral | Excess Subordination as a % of Current Performing Collateral |
|---|---|---|---|---|---|---|---|---|---|---|
| **Pooled trust preferred securities:** | | | | | | | | | | |
| TROPC 2003-1A | A4L | C | $ 977 | $ 198 | $ (779) | $ | 18/39 | 41.7% | 17.5% | 0.0% |
| MM Community Funding IX | B-2 | D | 2,076 | 859 | (1,217) | | 16/31 | 41.1% | 8.5% | 0.0% |
| Reg Div Funding 2004 | B-2 | D | 4,194 | 690 | (3,504) | | 24/45 | 46.0% | 6.8% | 0.0% |
| Pretsl XII | B-1 | C | 2,886 | 1,508 | (1,378) | | 50/77 | 30.4% | 6.7% | 0.0% |
| Pretsl XV | B-1 | C | 1,695 | 568 | (1,127) | | 49/72 | 36.4% | 10.0% | 0.0% |
| Reg Div Funding 2005 | B-1 | C | 311 | 58 | (253) | | 23/49 | 49.3% | 29.0% | 0.0% |
| MM Community Funding II | B | BB | 987 | 959 | (28) | | 5/8 | 4.7% | 0.0% | 26.9% |
| Pretsl XXVII LTD | B | CC | 4,835 | 655 | (4,180) | | 33/49 | 28.1% | 23.7% | 35.6% |
| Trapeza Ser 13A | A2A | CCC- | 9,385 | 2,035 | (7,350) | | 36/56 | 29.2% | 4.2% | 39.8% |
| | | | 27,346 | 7,530 | (19,816) | | | | | |
| **Single Issuer trust preferred securities:** | | | | | | | | | | |
| First Empire Cap (M&T) | | BBB- | 955 | 1,004 | 49 | | | | | |
| First Empire Cap (M&T) | | BBB- | 2,904 | 3,013 | 109 | | | | | |
| Fleet Cap Tr V (BOA) | | BB+ | 3,357 | 2,295 | (1,062) | | | | | |
| JP Morgan Chase Cap XIII | | BBB+ | 4,710 | 3,878 | (832) | | | | | |
| | | | 11,926 | 10,190 | (1,736) | | | | | |
| Total | | | $ 39,272 | $ 17,720 | $ (21,552) | $ | | | | |

(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, their credit rating at September 30, 2011 and the related credit losses recognized in earnings:

| | | | Amount of other-than-temporary impairment recognized in earnings | |
|---|---|---|---|---|
| | Lowest Credit | Amortized | Three months ended | Nine months ended |

| | Vintage | Rating (1) | Cost | September 30, 2011 | September 30, 2011 |
|---|---|---|---|---|---|
| Non-agency mortgage-backed securities: | | | | | |
| FHASI Ser 4 | 2007 | CC | $ 20,003 | $ | $ 340 |
| HALO Ser 1R | 2006 | B | 15,640 | | 16 |
| RFMSI Ser S10 | 2006 | CC | 4,217 | | 143 |
| | | | $ 39,860 | | 499 |
| Total other-than-temporary-impairment recognized in earnings | | | | $ | $ 499 |

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

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

| | | | | Amount of other-than-temporary impairment recognized in earnings | |
|---|---|---|---|---|---|
| | Vintage | Lowest Credit Rating (1) | Amortized Cost | 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.

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The following table details all securities with other-than-temporary-impairment, their credit rating at September 30, 2011, and the related credit losses recognized in earnings:

| | | | | Amount of other-than-temporary impairment recognized in earnings | | | |
|---|---|---|---|---|---|---|---|
| | | Lowest Credit Rating | Amortized | Nine months September 30, | Twelve months ended December 31, | | Life-to |
| | Vintage | (1) | Cost | 2011 | 2010 | 2009 | date |
| Non-agency mortgage-backed securities: | | | | | | | |
| BAFC Ser 4 | 2007 | CCC | $ 14,026 | $ | $ 79 | $ 63 | $ 142 |
| CWALT Ser 73CB | 2005 | CC | 3,842 | | 207 | 83 | 290 |
| CWALT Ser 73CB | 2005 | CC | 4,791 | | 427 | 182 | 609 |
| CWHL 2006-10 (3) | 2006 | | | | 309 | 762 | 1,071 |
| CWHL 2005-20 | 2005 | CC | 5,332 | | 39 | 72 | 111 |
| FHASI Ser 4 | 2007 | CC | 20,003 | 340 | 629 | 223 | 1,192 |
| HALO Ser 1R | 2006 | B | 15,640 | 16 | | | 16 |
| RFMSI Ser S9 (2) | 2006 | | | | 923 | 1,880 | 2,803 |
| RFMSI Ser S10 | 2006 | CC | 4,217 | 143 | 76 | 249 | 468 |
| RALI QS2 (2) | 2006 | | | | 278 | 739 | 1,017 |
| RFMSI S1 | 2006 | CCC | 2,802 | | 30 | 176 | 206 |
| | | | 70,653 | 499 | 2,997 | 4,429 | 7,925 |
| Pooled trust preferred securities: | | | | | | | |
| TROPC | 2003 | C | 977 | | 444 | 3,517 | 3,961 |
| MM Community Funding IX | 2003 | D | 2,076 | | 165 | 2,612 | 2,777 |
| Reg Div Funding | 2004 | D | 4,194 | | 321 | 5,199 | 5,520 |
| Pretsl XII | 2003 | C | 2,886 | | | 1,897 | 1,897 |
| Pretsl XV | 2004 | C | 1,695 | | | 3,374 | 3,374 |
| Reg Div Funding | 2005 | C | 311 | | | 3,767 | 3,767 |
| | | | 12,139 | | 930 | 20,366 | 21,296 |
| Total other-than-temporary-impairment recognized in earnings | | | | $ 499 | $ 3,927 | $ 24,795 | $ 29,221 |

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

(2) Sold during fourth quarter 2010.

(3) Sold during first quarter 2011.

**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, 2011 and December 31, 2010, Old National had residential loans held for sale of $4.7 million and $3.8 million, respectively.

During the first nine months of 2011, commercial and commercial real estate loans held for investment of $4.7 million, including $0.1 million of purchased impaired loans, were reclassified to loans held for sale at the lower of cost or fair value and sold for $4.9 million, resulting in income of $0.2 million. At September 30, 2011, there were no loans held for sale under this arrangement.

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. At September 30, 2010, there were no loans held for sale under this arrangement.

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## NOTE 8 FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES

Old National s finance receivables consist primarily of loans made to consumers and commercial clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. Most of Old National s lending activity occurs within the Company s principal geographic markets of Indiana, Illinois and Kentucky. Old National has no concentration of commercial loans in any single industry exceeding 10% of its portfolio.

The composition of loans by lending classification was as follows:

| (dollars in thousands) | **September 30, 2011** | December 31, 2010 |
|---|---|---|
| Commercial (1) | **$ 1,246,289** | $ 1,211,399 |
| Commercial real estate: | | |
| Construction | **50,116** | 101,016 |
| Other | **1,078,258** | 841,379 |
| Residential real estate | **865,951** | 664,705 |
| Consumer credit: | | |
| Heloc | **245,686** | 248,293 |
| Auto | **487,983** | 497,102 |
| Other | **165,777** | 179,557 |
| Covered loans | **711,266** | |
| Total loans | **4,851,326** | 3,743,451 |
| Allowance for loan losses | **(65,219)** | (72,309) |
| Allowance for loan losses covered loans | **(303)** | |
| Net loans | **$ 4,785,804** | $ 3,671,142 |

(1) Includes direct finance leases of $87.0 million at September 30, 2011 and $106.1 million at December 31, 2010.

The risk characteristics of each loan portfolio segment are as follows:

Commercial

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate

These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing Old National s commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, Old National avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

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Construction
Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from Old National until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.
Residential and Consumer
With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, Old National establishes a maximum loan-to-value ratio and generally requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.
Portfolio loans, or loans Old National intends to hold for investment purposes, are carried at the principal balance outstanding, net of earned interest, purchase premiums or discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the principal balances of loans outstanding.
Allowance for loan losses
The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses incurred in the loan portfolio. Management s evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, historical loss experience, and assessments of the impact of current economic conditions on the portfolio.
The allowance is increased through a provision charged to operating expense. Loans deemed to be uncollectible are charged to the allowance. Recoveries of loans previously charged-off are added to the allowance.

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Old National s activity in the allowance for loan losses for the three months ended September 30, 2011 and 2010, excluding covered loans, is as follows:

| (dollars in thousands) | Commercial | Commercial Real Estate | Consumer | Residential | Unallocated | Total |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| **Allowance for loan losses:** | | | | | | |
| Beginning balance | $ 26,029 | $ 32,490 | $ 8,558 | $ 3,112 | | $ 70,189 |
| Charge-offs | (2,175) | (2,834) | (2,161) | (367) | | (7,537) |
| Recoveries | 878 | 305 | 1,400 | 66 | | 2,649 |
| Provision | (864) | 315 | 130 | 337 | | (82) |
| Ending balance | $ 23,868 | $ 30,276 | $ 7,927 | $ 3,148 | | $ 65,219 |

| (dollars in thousands) | Commercial | Commercial Real Estate | Consumer | Residential | Unallocated | Total |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| **Allowance for loan losses:** | | | | | | |
| Beginning balance | $ 28,559 | $ 27,267 | $ 12,877 | $ 3,160 | | $ 71,863 |
| Charge-offs | (797) | (2,708) | (4,435) | (248) | | (8,188) |
| Recoveries | 79 | 444 | 1,541 | 10 | | 2,074 |
| Provision | (932) | 4,423 | 2,983 | (74) | | 6,400 |
| Ending balance | $ 26,909 | $ 29,426 | $ 12,966 | $ 2,848 | | $ 72,149 |

Old National s activity in the allowance for loan losses for the nine months ended September 30, 2011 and 2010, excluding covered loans, is as follows:

| (dollars in thousands) | Commercial | Commercial Real Estate | Consumer | Residential | Unallocated | Total |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| **Allowance for loan losses:** | | | | | | |
| Beginning balance | $ 26,204 | $ 32,654 | $ 11,142 | $ 2,309 | | $ 72,309 |
| Charge-offs | (7,344) | (5,815) | (8,014) | (1,540) | | (22,713) |
| Recoveries | 3,013 | 1,289 | 4,726 | 158 | | 9,186 |
| Provision | 1,995 | 2,148 | 73 | 2,221 | | 6,437 |
| Ending balance | $ 23,868 | $ 30,276 | $ 7,927 | $ 3,148 | | $ 65,219 |

| (dollars in thousands) | Commercial | Commercial Real Estate | Consumer | Residential | Unallocated | Total |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| **Allowance for loan losses:** | | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Beginning balance | $ 26,869 | $ 27,138 | $ 13,853 | $ 1,688 | $ 69,548 |
| Charge-offs | (8,788) | (7,549) | (12,646) | (1,924) | (30,907) |
| Recoveries | 3,537 | 1,589 | 4,634 | 67 | 9,827 |
| Provision | 5,291 | 8,248 | 7,125 | 3,017 | 23,681 |
| Ending balance | $ 26,909 | $ 29,426 | $ 12,966 | $ 2,848 | $ 72,149 |

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The following table provides Old National s recorded investment in financing receivables, excluding covered loans, by portfolio segment at September 30, 2011 and December 31, 2010 and other information regarding the allowance:

| (dollars in thousands) | Commercial | Commercial Real Estate | Consumer | Residential | Unallocated | Total |
|---|---|---|---|---|---|---|
| **September 30, 2011** | | | | | | |
| **Allowance for loan losses:** | | | | | | |
| Ending balance: individually evaluated for impairment | $ 8,803 | $ 7,233 | | | | $ 16,036 |
| Ending balance: collectively evaluated for impairment | $ 14,977 | $ 22,752 | $ 7,927 | $ 3,148 | | $ 48,804 |
| Ending balance: loans acquired with deteriorated credit quality | $ 88 | $ 291 | | | | $ 379 |
| **Loans and leases outstanding:** | | | | | | |
| Ending balance | $ 1,246,289 | $ 1,128,374 | $ 899,446 | $ 865,951 | | $ 4,140,060 |
| Ending balance: individually evaluated for impairment | $ 34,296 | $ 47,398 | | | | $ 81,694 |
| Ending balance: collectively evaluated for impairment | $ 1,210,155 | $ 1,057,039 | $ 899,307 | $ 865,755 | | $ 4,032,256 |
| Ending balance: loans acquired with deteriorated credit quality (1) | $ 1,838 | $ 23,937 | $ 139 | $ 196 | | $ 26,110 |

(1) Includes $166.4 million of revolving credits not accounted for under ASC 310-30.

| (dollars in thousands) | Commercial | Commercial Real Estate | Consumer | Residential | Unallocated | Total |
|---|---|---|---|---|---|---|
| **December 31, 2010** | | | | | | |
| **Allowance for loan losses:** | | | | | | |
| Ending balance: individually evaluated for impairment | $ 6,063 | $ 8,514 | | | | $ 14,577 |
| Ending balance: collectively evaluated for impairment | $ 20,141 | $ 24,140 | $ 11,142 | $ 2,309 | | $ 57,732 |
| **Loans and leases outstanding:** | | | | | | |
| Ending balance | $ 1,211,399 | $ 942,395 | $ 924,952 | $ 664,705 | | $ 3,743,451 |
| Ending balance: individually evaluated for impairment | $ 23,944 | $ 29,377 | | | | $ 53,321 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Ending balance: collectively evaluated for impairment | $ 1,187,455 | $ 913,018 | $ 924,952 | $ 664,705 | | $ 3,690,130 |

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

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

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

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

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

The risk category of loans, excluding covered loans, by class of loans is as follows:

(dollars in thousands)

| **Corporate Credit Exposure by Internally Assigned Grade** | Commercial September 30, 2011 | Commercial December 31, 2010 | Commercial Real Estate-Construction September 30, 2011 | Commercial Real Estate-Construction December 31, 2010 | Commercial Real Estate-Other September 30, 2011 | Commercial Real Estate-Other December 31, 2010 |
|---|---|---|---|---|---|---|
| Grade: | | | | | | |
| Pass | $ 1,110,329 | $ 1,105,382 | $ 18,233 | $ 77,241 | $ 936,709 | $ 729,243 |
| Criticized | 45,244 | 38,629 | 13,998 | 16,223 | 39,274 | 29,161 |
| Classified substandard | 52,978 | 41,899 | 11,653 | 7,552 | 35,790 | 52,559 |
| Classified doubtful | 37,738 | 25,489 | 6,232 | | 66,485 | 30,416 |
| Total | $ 1,246,289 | $ 1,211,399 | $ 50,116 | $ 101,016 | $ 1,078,258 | $ 841,379 |

Old National considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, Old National also evaluates credit quality based on the aging status of the loan and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of September 30, 2011 and December 31, 2010, excluding covered loans:

| September 30, 2011 (dollars in thousands) | Consumer Heloc | Consumer Auto | Consumer Other | Residential |
|---|---|---|---|---|
| Performing | $ 244,458 | $ 485,834 | $ 164,052 | $ 856,717 |
| Nonperforming | 1,228 | 2,149 | 1,725 | 9,234 |
| | $ 245,686 | $ 487,983 | $ 165,777 | $ 865,951 |

| December 31, 2010 (dollars in thousands) | Consumer Heloc | Consumer Auto | Consumer Other | Residential |
|---|---|---|---|---|
| Performing | $ 246,390 | $ 494,771 | $ 177,470 | $ 655,986 |
| Nonperforming | 1,903 | 2,331 | 2,087 | 8,719 |
| | $ 248,293 | $ 497,102 | $ 179,557 | $ 664,705 |

Large commercial credits are subject to individual evaluation for impairment. Retail credits and other small balance credits that are part of a homogeneous group are not tested for individual impairment. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Old National s policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status. For the nine months ended September 30, 2011 and 2010, the average balance of impaired loans was $66.4 million and $50.1 million, respectively, for which no interest income was recorded. No additional funds are committed to be advanced in connection with these impaired loans.

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The following table shows Old National s impaired loans, excluding covered loans, that are individually evaluated as of September 30, 2011 and December 31, 2010. Of the loans purchased without FDIC loss share coverage, only those that have experienced subsequent impairment since the date acquired are included in the table below. Purchased loans of $6.3 million migrated to classified-doubtful during the third quarter of 2011.

| (dollars in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|---|---|---|---|
| September 30, 2011 | | | |
| With no related allowance recorded: | | | |
| Commercial | $ 15,409 | $ 20,699 | $ |
| Commercial Real Estate Construction | | | |
| Commercial Real Estate Other | 13,033 | 19,621 | |
| With an allowance recorded: | | | |
| Commercial | 18,887 | 19,817 | 8,803 |
| Commercial Real Estate Construction | | | |
| Commercial Real Estate Other | 34,365 | 37,743 | 7,233 |
| Total Commercial | $ 81,694 | $ 97,880 | $ 16,036 |
| December 31, 2010 | | | |
| With no related allowance recorded: | | | |
| Commercial | $ 6,116 | $ 8,001 | $ |
| Commercial Real Estate Construction | | | |
| Commercial Real Estate Other | 10,554 | 16,781 | |
| With an allowance recorded: | | | |
| Commercial | 17,828 | 20,341 | 6,063 |
| Commercial Real Estate Construction | | | |
| Commercial Real Estate Other | 18,823 | 19,849 | 8,514 |
| Total Commercial | $ 53,321 | $ 64,972 | $ 14,577 |

The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the three months ended September 30, 2011 are included in the tables below.

| (dollars in thousands) | Average Recorded Investment | Interest Income Recognized (1) |
|---|---|---|
| September 30, 2011 | | |
| With no related allowance recorded: | | |
| Commercial | $ 12,081 | $ 178 |
| Commercial Real Estate Construction | | |
| Commercial Real Estate Other | 11,409 | 64 |
| With an allowance recorded: | | |
| Commercial | 22,118 | 59 |
| Commercial Real Estate Construction | | |
| Commercial Real Estate Other | 32,243 | 194 |

| | | | | |
|---|---|---|---|---|
| Total Commercial | $ | 77,851 | $ | 495 |

(1) The Company does not record interest on nonaccrual loans until principal is recovered.

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The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the nine months ended September 30, 2011 are included in the tables below.

| (dollars in thousands) | Average Recorded Investment | Interest Income Recognized (1) |
|---|---|---|
| September 30, 2011 | | |
| With no related allowance recorded: | | |
| Commercial | $ 11,833 | $ 268 |
| Commercial Real Estate Construction | | |
| Commercial Real Estate Other | 10,713 | 169 |
| With an allowance recorded: | | |
| Commercial | 17,103 | 145 |
| Commercial Real Estate Construction | | |
| Commercial Real Estate Other | 26,780 | 328 |
| Total Commercial | $ 66,429 | $ 910 |

(1) The Company does not record interest on nonaccrual loans until principal is recovered.

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

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Old National s past due financing receivables as of September 30, 2011 and December 31, 2010 are as follows:

| (dollars in thousands) | 30-59 Days Past Due | 60-89 Days Past Due | Recorded Investment > 90 Days and Accruing | Nonaccrual | Total Past Due | Current |
|---|---|---|---|---|---|---|
| September 30, 2011 | | | | | | |
| Commercial | $ 2,459 | $ 3,336 | $ 408 | $ 37,739 | $ 43,942 | $ 1,202,347 |
| Commercial Real Estate: | | | | | | |
| Construction | | 1,434 | | 6,232 | 7,666 | 42,450 |
| Other | 1,185 | 859 | 490 | 66,485 | 69,019 | 1,009,239 |
| Consumer: | | | | | | |
| Heloc | 423 | 166 | 9 | 1,228 | 1,826 | 243,860 |
| Auto | 5,054 | 900 | 153 | 2,149 | 8,256 | 479,727 |
| Other | 1,623 | 381 | 98 | 1,725 | 3,827 | 161,950 |
| Residential | 6,016 | 1,049 | | 9,234 | 16,299 | 849,652 |
| Covered loans | 12,626 | 1,713 | 692 | 199,028 | 214,059 | 497,207 |
| Total loans | $ 29,386 | $ 9,838 | $ 1,850 | $ 323,820 | $ 364,894 | $ 4,486,432 |
| December 31, 2010 | | | | | | |
| Commercial | $ 2,543 | $ 583 | $ 79 | $ 25,488 | $ 28,693 | $ 1,182,706 |
| Commercial Real Estate: | | | | | | |
| Construction | | | | | | 101,016 |
| Other | 992 | 98 | | 30,416 | 31,506 | 809,873 |
| Consumer: | | | | | | |
| Heloc | 849 | 477 | 189 | 1,903 | 3,418 | 244,875 |
| Auto | 5,791 | 1,316 | 120 | 2,331 | 9,558 | 487,544 |
| Other | 1,129 | 972 | 184 | 2,088 | 4,373 | 175,184 |
| Residential | 9,126 | 1,589 | | 8,719 | 19,434 | 645,271 |
| Total | $ 20,430 | $ 5,035 | $ 572 | $ 70,945 | $ 96,982 | $ 3,646,469 |

In the course of resolving nonperforming loans, Old National may choose to restructure the contractual terms of certain loans. The Company may 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 Old National 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 Old National 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, 2011, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled $9.4 million, consisting of

$3.9 million of commercial loans and $5.5 million of commercial real estate loans, and had specific allocations of allowance for loan losses of $2.4 million. At December 31, 2010, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled $4.8 million, consisting of $3.8 million of commercial loans and $1.0 million of commercial real estate loans, and had specific allocations of allowance for loan losses of $1.6 million.

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

Old National has loan participations, which qualify as participating interests, with other financial institutions. At September 30, 2011, these loans totaled $217.9 million, of which $126.6 million had been sold to other financial institutions and $91.3 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.

**Purchased Impaired Loans (non-covered loans)**

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. In determining the estimated fair value of purchased loans, management considers a number of factors including the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, net present value of cash flows expected to be received, among others. Purchased loans are accounted for in accordance with guidance for certain loans acquired in a transfer, when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows will result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

Old National has purchased loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. Of these acquired credit impaired loans, $166.4 million in carrying balances did not meet the criteria to be accounted for under the guidance of ASC 310-30 as they were revolving lines of credit, thus these lines have not been included in the following table. For the loans that meet the criteria of ASC 310-30 treatment, the carrying amount is as follows:

| (dollars in thousands) | September 30, 2011 |
|---|---|
| Commercial | $ 1,946 |
| Commercial real estate | 24,750 |
| Consumer | 47,095 |
| Residential | 398 |
| Outstanding balance | $ 74,189 |
| Carrying amount, net of allowance of $1,188 | $ 73,001 |

The accretable difference on purchased loans acquired in a business combination is the difference between the expected cash flows and the net present value of expected cash flows with such difference accreted into earnings using the effective yield method over the term of the loans. The accretable difference that is expected to be accreted into future earnings of the Company totaled $25.5 million at the date of acquisition. Accretion of $10.0 million has been recorded as loan interest income through September 30, 2011.

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

| (dollars in thousands) | | |
|---|---|---|
| Balance at January 1, 2011 | $ | |
| New loans purchased | | 25,520 |
| Accretion of income | | (10,006) |
| Reclassifications from (to) nonaccretable difference | | 18,851 |
| Disposals/other adjustments | | (134) |
| Balance at September 30, 2011 | $ | 34,231 |

Included in Old National s allowance for loan losses is $1.2 million related to the purchased loans disclosed above for the first nine months of 2011. An immaterial amount of allowances for loan losses were reversed during the first nine months of 2011 related to these loans.

Purchased loans for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

| (dollars in thousands) | | September 30, 2011 |
|---|---|---|
| Contractually required payments receivable of loans purchased during the year: | | |
| Commercial | $ | 8,131 |
| Commercial real estate | | 50,481 |
| Consumer | | 57,009 |
| Residential | | 907 |
| | $ | 116,528 |
| Cash flows expected to be collected at acquisition (January 1, 2011 & July 29, 2011) | $ | 108,567 |
| Fair value of acquired loans at acquisition (January 1, 2011 & July 29, 2011) | $ | 95,330 |

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

**NOTE 9 COVERED LOANS**

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements. Covered loans were $711.3 million at September 30, 2011. The composition of covered loans by lending classification was as follows:

| (dollars in thousands) | | September 30, 2011 |
|---|---|---|
| Commercial | $ | 154,251 |
| Commercial real estate | | 367,758 |
| Residential | | 50,726 |
| Consumer | | 138,531 |
| Covered loans | | 711,266 |
| Allowance for loan losses | | (303) |
| Covered loans, net | $ | 710,963 |

Loans were recorded at fair value in accordance with FASB ASC 805, Business Combinations. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC 820, exclusive of the loss share agreements with the Federal Deposit Insurance Corporation ( FDIC ). The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics and were treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan losses. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan s or pool s remaining life.

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

| (dollars in thousands) | | |
|---|---|---|
| Balance at January 1, 2011 | $ | |
| New loans purchased | | 260,665 |
| Accretion of income | | (7,749) |
| Reclassifications from (to) nonaccretable difference | | |
| Disposals/other adjustments | | 36 |
| Balance at September 30, 2011 | $ | 252,952 |

Because the FDIC will reimburse the Company for losses incurred on certain acquired loans, an indemnification asset (FDIC loss share receivable) is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The loss share agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. The fair value of the indemnification asset at September 30, 2011 was $168.1 million.

The loss share agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by FASB ASC 310, subsequent changes to the basis of the loss share agreements also follow that model. Deterioration in the credit quality of the loans (recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the loss share agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the loss share agreements, with the decrease being accreted into income over the same period or the life of the loss share agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the loss share agreements. Upon determination of an incurred loss the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding receivable is recorded until cash is received from the FDIC.

**NOTE 10 OTHER REAL ESTATE OWNED**

The following table shows the carrying amount for other real estate owned at September 30, 2011 and December 31, 2010:

| (dollars in thousands) | | September 30, 2011 | | December 31, 2010 |
|---|---|---|---|---|
| Other real estate owned | $ | 9,390 | $ | 5,591 |
| Other real estate owned, covered | | 31,908 | | |
| Total other real estate owned | $ | 41,298 | $ | 5,591 |

Covered OREO expenses and valuation write-downs are recorded in the noninterest expense section of the consolidated statements of income. Under the loss sharing agreements, the FDIC will reimburse the Company for 80% of expenses and valuation write-downs related to covered assets up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0%, and 80% of losses in excess of $467.2 million. The portion of these expenses that is reimbursable is recorded as the change in the FDIC indemnification asset in the noninterest income section of the consolidated statements of income.

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**NOTE 11 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, 2011 and 2010:

| (dollars in thousands) | Community Banking | Other | Total |
|---|---|---|---|
| Balance, January 1, 2011 | **$ 128,011** | **$ 39,873** | **$ 167,884** |
| Goodwill acquired during the period | **97,209** | **892** | **98,101** |
| Balance, September 30, 2011 | **$ 225,220** | **$ 40,765** | **$ 265,985** |
| 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 |

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2011 and determined that no impairment existed as of this date. Old National recorded $68.4 million of goodwill in the first quarter of 2011 associated with the acquisition of Monroe Bancorp, of which $67.5 million was allocated to the Community Banking segment and $0.9 million to the Other segment. Old National recorded $29.7 million of goodwill in the third quarter of 2011 associated with the acquisition of Integra Bank, all of which was allocated to the Community Banking segment.

The gross carrying amount and accumulated amortization of other intangible assets at September 30, 2011 and December 31, 2010 was as follows:

| (dollars in thousands) | Gross Carrying Amount | Accumulated Amortization and Impairment | Net Carrying Amount |
|---|---|---|---|
| **September 30, 2011** | | | |
| Amortized intangible assets: | | | |
| Core deposit | **$ 39,265** | **$ (18,539)** | **$ 20,726** |
| Customer business relationships | **25,611** | **(15,867)** | **9,744** |
| Customer trust relationships | **3,621** | **(334)** | **3,287** |
| Customer loan relationships | **4,413** | **(1,872)** | **2,541** |
| Total intangible assets | **$ 72,910** | **$ (36,612)** | **$ 36,298** |
| **December 31, 2010** | | | |
| Amortized intangible assets: | | | |
| Core deposit | $ 26,810 | $ (14,646) | $ 12,164 |
| Customer business relationships | 25,753 | (14,581) | 11,172 |
| Customer loan relationships | 4,413 | (1,571) | 2,842 |
| Total intangible assets | $ 56,976 | $ (30,798) | $ 26,178 |

Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 5 to 25 years. During the first quarter of 2011, Old National recorded $8.2 million of core deposit intangibles associated with the acquisition of Monroe Bancorp, which is included in the Community Banking segment. During the first quarter of 2011, Old National also recorded $2.3 million of customer relationship intangibles associated with the trust business of Monroe Bancorp, which is included in the Other segment. During the second quarter of 2011, Old National recorded $1.3 million of customer relationship intangibles associated with the trust business of Integra Wealth Management and Trust, which is included in the Other segment. During the third quarter of 2011, Old National recorded $4.3 million of core deposit intangibles associated with the acquisition of Integra Bank, which is included in the Community Banking segment. Total amortization expense associated with other intangible assets for the nine months ended September 30 was $5.9 million in 2011 and $4.6 million in 2010.

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Estimated amortization expense for future years is as follows:

| (dollars in thousands) | | |
|---|---|---|
| 2011 remaining | $ | 2,224 |
| 2012 | | 7,995 |
| 2013 | | 6,724 |
| 2014 | | 5,452 |
| 2015 | | 4,372 |
| Thereafter | | 9,531 |
| Total | $ | 36,298 |

**NOTE 12 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, 2011:

| (dollars in thousands) | Federal Funds Purchased | Repurchase Agreements | Other Short-term Borrowings | Total |
|---|---|---|---|---|
| **2011** | | | | |
| Outstanding at September 30, 2011 | **$ 948** | **$ 328,720** | **$ 11,336** | **$ 341,004** |
| Average amount outstanding | **1,580** | **335,078** | **8,988** | **345,646** |
| Maximum amount outstanding at any month-end | **17,178** | **366,103** | **11,336** | |
| Weighted average interest rate: | | | | |
| During nine months ended September 30, 2011 | **0.03**% | **0.15**% | **0.14**% | **0.15**% |
| At September 30, 2011 | | **0.15** | | **0.15** |

**Other Short-term Borrowings**

As of September 30, 2011, Old National had $10.9 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, 2011, the effective interest rate on these funds was 0%. The remaining $0.4 million of short-term borrowings is a note payable to a life insurance company which was assumed as part of the Integra Bank acquisition. This note payable, which carries an effective interest rate of 7.26%, will mature in January 2012.

**NOTE 13 FINANCING ACTIVITIES**

The following table summarizes Old National s and its subsidiaries other borrowings at September 30, 2011 and December 31, 2010:

| (dollars in thousands) | September 30, 2011 | December 31, 2010 |
|---|---|---|
| **Old National Bancorp:** | | |
| Junior subordinated debenture (variable rates of 2.12% to 3.42% and fixed rates of 6.52% to 7.15%) maturing July 2033 to June 2037 | **$ 16,000** | $ 8,000 |
| Subordinated notes (fixed rate of 10.00%) maturing June 2019 | **13,000** | |
| ASC 815 fair value hedge and other basis adjustments | **(2,844)** | (36) |
| **Old National Bank:** | | |
| Securities sold under agreements to repurchase (variable rate 3.05%) maturing October 2014 | **50,000** | 50,000 |
| Federal Home Loan Bank advances (fixed rates 1.24% to 8.34% and variable rate 2.53%) maturing June 2012 to January 2023 | **211,006** | 211,696 |
| Subordinated bank notes (fixed rates of 6.75%) maturing October 2011 | **150,000** | 150,000 |
| Capital lease obligation | **4,273** | 4,307 |
| ASC 815 fair value hedge and other basis adjustments | **2,449** | (2,056) |
| Total other borrowings | **$ 443,884** | $ 421,911 |

Contractual maturities of other borrowings at September 30, 2011, were as follows:

| (dollars in thousands) | |
|---|---|
| Due in 2011 | $ 150,012 |
| Due in 2012 | 688 |
| Due in 2013 | 75,649 |
| Due in 2014 | 92,560 |
| Due in 2015 | 16,763 |
| Thereafter | 108,607 |
| SFAS 133 fair value hedge and other basis adjustments | (395) |
| Total | $ 443,884 |

**INTEGRA BANK ACQUISITION**

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. ( Integra ) in an FDIC assisted transaction. As of the acquisition date, there were $107.1 million of Federal Home Loan Bank advances and $85.8 million of structured repurchase agreements recorded at estimated fair value. All of the Federal Home Loan Bank advances and repurchase agreement were repaid during August 2011 and September 2011.

**FEDERAL HOME LOAN BANK**

Federal Home Loan Bank advances had weighted-average rates of 3.30% and 3.32% at September 30, 2011, and December 31, 2010, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 153% of outstanding debt.

**SUBORDINATED NOTES**

In 2011, Old National acquired Monroe Bancorp. Included in the acquisition was $13 million of 10% subordinated notes. As shown in the table above, these subordinated notes mature June 2019. Old National may redeem the notes, in whole or in part, beginning June 30, 2012. According to capital guidelines, the portion of limited-life capital instruments that is includible in Tier 2 capital is limited within five years or less until maturity. As of September 30, 2011, $13 million of the subordinated notes qualified as Tier 2 Capital for regulatory purposes.

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**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 within five years or less until maturity. As of September 30, 2011, none of the subordinated bank notes qualified as Tier 2 Capital for regulatory purposes. As shown in the table above, these subordinated bank notes mature October 2011. Capital treatment ceased October 2010, or one year prior to the maturity date.

Subsequent to quarter-end, the subordinated debt was paid in full.

**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.

ONB Capital Trust II issued $100 million in preferred securities in April 2002. Old National guaranteed the payment of distributions on the trust preferred securities issued by ONB Capital Trust II. The preferred securities had 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. On November 9, 2010, Old National s Board of Directors approved the redemption of the junior subordinated debentures. As a result of the redemption of the debentures, the trustee of ONB Capital Trust II redeemed all $100 million of the 8% trust preferred securities on December 15, 2010. The $3.0 million remaining balance of the unamortized issuance costs at the time of the redemption were expensed.

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 and now carry a variable rate of interest priced at the three-month LIBOR plus 175 basis points, payable quarterly and maturing on March 17, 2035. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust II. Old National, at any time, may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities.

In 2011, Old National acquired Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II in conjunction with its acquisition of Monroe Bancorp. Old National guarantees the payment of distributions on the trust preferred securities issued by Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II. Monroe Bancorp Capital Trust I issued $3.0 million in preferred securities in July 2006. The preferred securities carry a fixed rate of interest of 7.15% until October 7, 2011 and thereafter a variable rate of interest priced at the three-month LIBOR plus 1.60%. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Capital Trust I. Monroe Bancorp Statutory Trust II issued $5.0 million in preferred securities in March 2007. The preferred securities carry a fixed rate of interest of 6.52% until June 15, 2012 and thereafter a variable rate of interest priced at the three-month LIBOR plus 1.60%. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Statutory Trust II. Old National, at any time, may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole (or in part from time to time) on or after October 7, 2011 (for debentures owned by Monroe Bancorp Capital Trust I) and on or after June 15, 2012 (for debentures owned by Monroe Bancorp Statutory Trust II), and in whole or in part following the occurrence and continuance of certain adverse federal income tax or capital treatment events.

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**CAPITAL LEASE OBLIGATION**

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

At September 30, 2011, the future minimum lease payments under the capital lease were as follows:

| | | |
|---|---|---|
| (dollars in thousands) | | |
| 2011 remaining | $ | 97 |
| 2012 | | 390 |
| 2013 | | 390 |
| 2014 | | 410 |
| 2015 | | 410 |
| Thereafter | | 10,494 |
| Total minimum lease payments | | 12,191 |
| Less amounts representing interest | | 7,918 |
| Present value of net minimum lease payments | $ | 4,273 |

**NOTE 14 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. Old National expects to contribute approximately $220 thousand to the Retirement Plan in 2011.

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 $125 thousand to cover benefit payments from the Restoration Plan during the first nine months of 2011. Old National expects to contribute an additional $30 thousand to cover benefit payments from the Restoration Plan during the remainder of 2011.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | **2011** | 2010 | **2011** | 2010 |
| Interest cost | **$ 525** | $ 498 | **$ 1,575** | $ 1,492 |
| Expected return on plan assets | **(676)** | (490) | **(2,028)** | (1,470) |
| Recognized actuarial loss | **689** | 401 | **2,067** | 1,203 |
| Settlement | **465** | 350 | **1,069** | 350 |
| Net periodic benefit cost | **$ 1,003** | $ 759 | **$ 2,683** | $ 1,575 |

## NOTE 15 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, 2011, 2.5 million shares remained available for issuance. The granting of awards to key employees is typically in the form of restricted stock or options to purchase common shares of stock.

*Stock Options*

The Company did not grant any stock options during the first nine months of 2011. Old National recorded $61 thousand of stock based compensation expense, net of tax, during the first nine months of 2011 as compared to $119 thousand for the first nine months of 2010.

In connection with the acquisition of Monroe Bancorp on January 1, 2011, 0.3 million options for shares of Monroe Bancorp stock were converted to 0.3 million options for shares of Old National Bancorp stock. Old National recorded no incremental expense associated with the conversion of these options.

*Restricted Stock Awards*

The Company granted 121 thousand time-based restricted stock awards to certain key officers during 2011, with shares vesting in either eighteen or thirty-six month periods. 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, 2011, unrecognized compensation expense was estimated to be $1.7 million for unvested restricted share awards.

Old National recorded expense of $0.7 million, net of tax benefit, during the first nine months of 2011, compared to expense of $0.6 million during the first nine months of 2010 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.

During the third quarter of 2011, the Company modified the vesting eligibility of 10 thousand shares of restricted stock issued to an employee. As a result of that modification, the Company reversed $0.1 million for the quarter ended September 30, 2011. There were no restricted stock modifications during 2010.

*Restricted Stock Units*

The Company granted 159 thousand shares of performance based restricted stock units to certain key officers during 2011, 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 $0.8 million of stock based compensation expense, net of tax, during the first nine months of 2011. Old National recorded $0.3 million of stock based compensation expense, net of tax, during the first nine months of 2010. Included in the first nine months of 2011 is the reversal of $13 thousand of expense associated with certain performance-based restricted stock grants. 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.

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## NOTE 16 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:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | **2011** | **2010** | **2011** | **2010** |
| Provision at statutory rate of 35% | **$ 8,695** | $ 4,776 | **$ 24,058** | $ 13,185 |
| Tax-exempt income | **(2,421)** | (2,416) | **(7,182)** | (7,749) |
| Reversal of portion of unrecognized tax benefits | **(623)** | (652) | **(623)** | (652) |
| State income taxes | **1,196** | 228 | **2,292** | 475 |
| Interim period effective rate adjustment | **888** | | **89** | |
| Other, net | **310** | (187) | **(144)** | (77) |
| Income tax expense | **$ 8,045** | $ 1,749 | **$ 18,490** | $ 5,182 |
| Effective tax rate | **32.4%** | 12.8% | **26.9%** | 13.8% |

In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at September 30, 2011 based on the current estimate of the effective annual rate.

For the three and nine months ended September 30, 2011, the effective tax rate was higher than the three and nine months ended September 30, 2010. The higher tax rate in the third quarter and nine months of 2011 is the result of an increase in pre-tax book income while tax-exempt income remained relatively stable.

No valuation allowance was recorded at September 30, 2011 and 2010 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) | **2011** | 2010 |
|---|---|---|
| Balance at January 1 | **$ 4,553** | $ 8,500 |
| Additions (reductions) based on tax positions related to the current year | **4** | (3,348) |
| Reductions due to statute of limitations expiring | **(413)** | (601) |
| Balance at September 30 | **$ 4,144** | $ 4,551 |

Approximately $0.35 million of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods.

The Company reversed $0.62 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 $0.62 million income tax reversal relates to the 2007 statute of limitations expiring. The statute of limitations expired in the third quarter of 2011. As a result, the Company reversed a total of $0.62 million from its unrecognized tax benefit liability which includes $0.21 million of interest.

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**NOTE 17 DERIVATIVE FINANCIAL INSTRUMENTS**

As part of the Company s overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was $195.0 million at both September 30, 2011 and December 31, 2010, respectively. The September 30, 2011 balances consist of $95.0 million notional amount of receive-fixed interest rate swaps on certain of its FHLB advances and $100.0 million notional amount of receive-fixed interest rate swaps on certain commercial loans. The December 31, 2010 balances consist of $95.0 million notional amount of receive-fixed interest rate swaps on certain of its FHLB advances and $100.0 million notional amount of receive-fixed interest rate swaps on certain commercial loans. These hedges were entered into to manage both interest rate risk and asset sensitivity on the balance sheet. These derivative instruments are recognized on the balance sheet at their fair value.

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, 2011, the notional amount of the interest rate lock commitments and forward commitments were $8.7 million and $11.2 million, respectively. At December 31, 2010, the notional amount of the interest rate lock commitments and forward commitments were $7.7 million and $9.3 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 $457.9 million and $457.9 million, respectively, at September 30, 2011. Included in the notional amounts at September 30, 2011 is $67.7 million of customer derivative instruments assumed in the Integra acquisition. At December 31, 2010, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were $419.2 million and $419.2 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps, foreign exchange forward contracts and commodity swaps and options. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

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

| | Asset Derivatives | | | |
|---|---|---|---|---|
| | September 30, 2011 | | December 31, 2010 | |
| (dollars in thousands) | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| **Derivatives designated as hedging instruments** | | | | |
| Interest rate contracts | Other assets | **$ 8,096** | Other assets | $ 4,766 |
| **Total derivatives designated as hedging instruments** | | **$ 8,096** | | $ 4,766 |
| **Derivatives not designated as hedging instruments** | | | | |
| Interest rate contracts | Other assets | **$ 38,927** | Other assets | $ 28,269 |
| Commodity contracts | Other assets | | Other assets | 132 |
| Mortgage contracts | Other assets | **186** | Other assets | 254 |
| **Total derivatives not designated as hedging instruments** | | **$ 39,113** | | $ 28,655 |
| Total derivative assets | | **$ 47,209** | | $ 33,421 |

| | Liability Derivatives | | | |
|---|---|---|---|---|
| | September 30, 2011 | | December 31, 2010 | |
| (dollars in thousands) | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| **Derivatives not designated as hedging instruments** | | | | |
| Interest rate contracts | Other liabilities | **$ 39,599** | Other liabilities | $ 28,928 |
| Commodity contracts | Other liabilities | | Other liabilities | 132 |
| **Total derivatives not designated as hedging instruments** | | **$ 39,599** | | $ 29,060 |
| Total derivative liabilities | | **$ 39,599** | | $ 29,060 |

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The effect of derivative instruments on the Consolidated Statement of Income for the three and nine months ended September 30, 2011 and 2010 are as follows:

| (dollars in thousands) | | Three months ended September 30, 2011 | Three months ended September 30, 2010 |
|---|---|---|---|
| **Derivatives in Fair Value Hedging Relationships** | **Location of Gain or (Loss) Recognized in Income on Derivative** | **Amount of Gain or (Loss) Recognized in Income on Derivative** | |
| Interest rate contracts (1) | Interest income / (expense) | **$ 744** | $ 843 |
| Interest rate contracts (2) | Other income / (expense) | **345** | 238 |
| Total | | **$ 1,089** | $ 1,081 |
| **Derivatives in Cash Flow Hedging Relationships** | **Location of Gain or (Loss) Recognized in Income on Derivative** | **Amount of Gain or (Loss) Recognized in Income on Derivative** | |
| Interest rate contracts (1) | Interest income / (expense) | **$ 410** | $ 383 |
| Total | | **$ 410** | $ 383 |
| **Derivatives Not Designated as Hedging Instruments** | **Location of Gain or (Loss) Recognized in Income on Derivative** | **Amount of Gain or (Loss) Recognized in Income on Derivative** | |
| Interest rate contracts (3) | Other income / (expense) | **$ (196)** | $ 132 |
| Mortgage contracts | Mortgage banking revenue | **(47)** | 131 |
| Total | | **$ (243)** | $ 263 |

| (dollars in thousands) | | Nine months ended September 30, 2011 | Nine months ended September 30, 2010 |
|---|---|---|---|
| **Derivatives in Fair Value Hedging Relationships** | **Location of Gain or (Loss) Recognized in Income on Derivative** | **Amount of Gain or (Loss) Recognized in Income on Derivative** | |
| Interest rate contracts (1) | Interest income / (expense) | **$ 2,205** | $ 2,750 |
| Interest rate contracts (2) | Other income / (expense) | **714** | 1,555 |
| Total | | **$ 2,919** | $ 4,305 |
| **Derivatives in** | **Location of Gain or (Loss)** | **Amount of Gain or (Loss)** | |

| **Cash Flow Hedging Relationships** | **Recognized in Income on Derivative** | **Recognized in Income on Derivative** | | | |
|---|---|---|---|---|---|
| Interest rate contracts (1) | Interest income / (expense) | **$** | **1,197** | $ | 1,158 |
| Total | | **$** | **1,197** | $ | 1,158 |

| **Derivatives Not Designated as Hedging Instruments** | **Location of Gain or (Loss) Recognized in Income on Derivative** | **Amount of Gain or (Loss) Recognized in Income on Derivative** | | | |
|---|---|---|---|---|---|
| Interest rate contracts (3) | Other income / (expense) | **$** | **(12)** | $ | (169) |
| Mortgage contracts | Mortgage banking revenue | | **(68)** | | (93) |
| Total | | **$** | **(80)** | $ | (262) |

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

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

(3) Includes the valuation differences between the customer and offsetting counterparty swaps.
See Note 21 to the consolidated financial statements.

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**NOTE 18 COMMITMENTS AND CONTINGENCIES**

**LITIGATION**

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

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

In November 2002, several beneficiaries of certain trusts filed a complaint against Old National 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. Old National filed its fourth motion for summary judgment in April 2011 that has the potential to dispose of the case if granted by the Court. In addition, a mediation session was held in March 2011 and settlement discussions continued between Old National and the Plaintiffs. Settlement negotiations became meaningful in mid-August of 2011. Although Old National continues to believe that it has meritorious defenses to each of the claims in the lawsuit, given the risks and uncertainty of litigation Old National reached a tentative settlement with the plaintiffs in mid-September of 2011. As such, two million dollars was accrued in the third quarter of 2011 in anticipation of negotiating final settlement and full resolution of this matter during the fourth quarter of 2011.

In November 2010, Old National was named in a class action lawsuit, much like many other banks, challenging Old National Bank s checking account practices. The plaintiff seeks damages and other relief, including restitution. Old National believes it has meritorious defenses to the claims brought by the plaintiff. At this phase of the litigation, it is not possible for management of Old National to determine the probability of a material adverse outcome or reasonably estimate the amount of any loss. No class has yet been certified and discovery is ongoing.

**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 $287.4 million, net of selling costs, resulting in a gain of approximately $123.9 million. Approximately $119.5 million of the gain was deferred and is being recognized over the term of the leases. As of September 30, 2011, $25.9 million of the deferred gain had been recognized. 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.

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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, 2011, Old National had closed 24 of these locations and terminated the leases. 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 $2.2 million per year.

In January 2011, Old National acquired Monroe Bancorp. Included in the acquisition are two leased branches, a leased operations center, five leased ATM locations and leased space in three retirement centers. The leased space in one of the retirement centers was closed in the second quarter of 2011. The leases have terms of one to five years. Under the lease agreements, Old National is obligated to pay a base rent of approximately $0.3 million per year.

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. ( Integra ) in an FDIC assisted transaction. The physical branch locations and leases were not immediately acquired by Old National in the acquisition. Old National has an option, exercisable for 90 days following the closing of the acquisition, to acquire, at fair value, any bank premises that were owned by, and to assume any leases relating to bank premises held by Integra. Old National is currently reviewing the bank premises and related leases of Integra and currently expects to acquire 16 of the Integra facilities and leases. Rent expense of $1.1 million was recorded during the third quarter of 2011 related to these properties.

**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 $1.196 billion and standby letters of credit of $80.6 million at September 30, 2011. At September 30, 2011, approximately $1.007 billion of the loan commitments had fixed rates and $189 million had floating rates, with the floating interest rates ranging from 2.0% to 19.8%. At December 31, 2010, loan commitments were $1.106 billion and standby letters of credit were $74.3 million. These commitments are not reflected in the consolidated financial statements. At September 30, 2011 and December 31, 2010, the balance of the allowance for unfunded loan commitments was $5.9 million and $3.8 million, respectively.

At September 30, 2011 and December 31, 2010, Old National had credit extensions of $24.6 million and $25.7 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National s clients. At September 30, 2011 and December 31, 2010, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $18.2 million and $20.2 million, respectively. Old National did not provide collateral for the remaining credit extensions.

**NOTE 19 FINANCIAL GUARANTEES**

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At September 30, 2011, the notional amount of standby letters of credit was $80.6 million, which represents the maximum amount of future funding requirements, and the carrying value was $0.5 million. At December 31, 2010, the notional amount of standby letters of credit was $74.3 million, which represents the maximum amount of future funding requirements, and the carrying value was $0.5 million.

During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of $9.0 million at September 30, 2011.

**NOTE 20 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.

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

| (dollars in thousands) | Community Banking | Treasury | Other | Total |
|---|---|---|---|---|
| **Three months ended September 30, 2011** | | | | |
| Net interest income | **$ 75,292** | **$ (11,803)** | **$ 9,103** | **$ 72,592** |
| Provision for loan losses | **(1,258)** | | **1,176** | **(82)** |
| Noninterest income | **28,800** | **4,756** | **13,770** | **47,326** |
| Noninterest expense | **60,828** | **8,840** | **25,490** | **95,158** |
| Income (loss) before income taxes | **44,522** | **(15,887)** | **(3,793)** | **24,842** |
| Total assets | **5,156,030** | **3,569,790** | **206,880** | **8,932,700** |
| **Three months ended September 30, 2010** | | | | |
| 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 |
| **Nine months ended September 30, 2011** | | | | |
| Net interest income | **$ 218,356** | **$ (30,009)** | **$ 7,931** | **$ 196,278** |
| Provision for loan losses | **5,261** | | **1,176** | **6,437** |
| Noninterest income | **80,989** | **8,816** | **43,931** | **133,736** |
| Noninterest expense | **192,071** | **10,617** | **52,153** | **254,841** |
| Income (loss) before income taxes | **102,013** | **(31,810)** | **(1,467)** | **68,736** |
| Total assets | **5,156,030** | **3,569,790** | **206,880** | **8,932,700** |
| **Nine months ended September 30, 2010** | | | | |
| 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 |

Included in net interest income for the three and nine months ended September 30, 2011 in the Community Banking segment is approximately $21.0 million and $38.7 million, respectively, associated with the acquisition of Monroe Bancorp and Integra Bank. The decrease in provision for loan losses is primarily attributable to the changing portfolio mix and improved risk profile. Noninterest expense for the three and nine months ended September 30, 2011 includes $16.0 million and $31.0 million, respectively, of costs associated with the addition of Monroe Bancorp and Integra Bank. Included in income before income taxes for the three and nine months ended September 30, 2011 is $10.6 million and $15.0 million, respectively, associated with the addition of Monroe Bancorp and Integra Bank.

**NOTE 21 FAIR VALUE**

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

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

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

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

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

Trading securities: The fair value for trading securities is determined by quoted market prices (Level 1).

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).

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, 2011 Using | | |
|---|---|---|---|---|
| (dollars in thousands) | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Financial Assets** | | | | |
| Trading securities | $ 2,794 | $ 2,794 | $ | $ |
| Investment securities available-for-sale: | | | | |
| U.S. Treasury | 65,951 | 65,951 | | |
| U.S. Government-sponsored entities and agencies | 180,934 | | 180,934 | |
| Mortgage-backed securities Agency | 1,346,534 | | 1,346,534 | |
| Mortgage-backed securities Non-agency | 95,051 | | 95,051 | |
| States and political subdivisions | 391,202 | | 391,202 | |
| Pooled trust preferred securities | 7,530 | | | 7,530 |
| Other securities | 165,887 | | 165,887 | |
| Residential loans held for sale | 4,710 | | 4,710 | |
| Derivative assets | 47,209 | | 47,209 | |
| **Financial Liabilities** | | | | |
| Derivative liabilities | 39,599 | | 39,599 | |

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There were no significant transfers into or out of Level 1, Level 2 or Level 3 assets or liabilities during the nine months ended September 30, 2011.

| | | Fair Value Measurements at December 31, 2010 Using | | |
|---|---|---|---|---|
| (dollars in thousands) | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Financial Assets** | | | | |
| Investment securities available-for-sale: | | | | |
| U.S. Treasury | **$ 62,550** | **$ 62,550** | **$** | **$** |
| U.S. Government-sponsored entities and agencies | **315,133** | | **315,133** | |
| Mortgage-backed securities Agency | **944,446** | | **944,446** | |
| Mortgage-backed securities Non-agency | **126,806** | | **126,806** | |
| States and political subdivisions | **348,924** | | **348,924** | |
| Pooled trust preferred securities | **8,400** | | | **8,400** |
| Other securities | **153,963** | | **153,963** | |
| Residential loans held for sale | **3,819** | | **3,819** | |
| Derivative assets | **34,082** | | **34,082** | |
| **Financial Liabilities** | | | | |
| Derivative liabilities | **29,721** | | **29,721** | |

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, 2011:

| (dollars in thousands) | Fair Value Measurements using Significant Unobservable Inputs (Level 3) Pooled Trust Preferred Securities Available-for-Sale |
|---|---|
| Beginning balance, January 1, 2011 | **$ 8,400** |
| Accretion/(amortization) of discount or premium | **(49)** |
| Payments received | **(5)** |
| Credit loss write-downs | |
| Increase/(decrease) in fair value of securities | **(816)** |
| Ending balance, September 30, 2011 | **$ 7,530** |

Included in the income statement is $49 thousand of expense included in interest income from the amortization of premiums on securities. The increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for sale, an increase in accumulated other comprehensive income, which is included in shareholders equity, and a decrease in other assets related to the tax impact.

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

| (dollars in thousands) | Fair Value Measurements using Significant Unobservable Inputs (Level 3) Pooled Trust Preferred Securities Available-for-Sale |
|---|---|
| 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 are $86 thousand of expense included in interest income from the amortization of premiums on securities and $311 thousand of credit losses included in noninterest income. 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.

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

| | | Fair Value Measurements at September 30, 2011 Using | | |
|---|---|---|---|---|
| (dollars in thousands) | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Collateral Dependent Impaired Loans** | | | | |
| Commercial loans | $ 17,165 | | | $ 17,165 |
| Commercial real estate loans | 21,986 | | | 21,986 |

Impaired commercial and commercial real estate loans that are deemed collateral dependent are valued based on the fair value of the underlying collateral. These estimates are based on the most recently available real estate appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the collateral. These impaired commercial and commercial real estate loans had a principal amount of $55.4 million, with a valuation allowance of $16.3 million at September 30, 2011. Old National recorded $10.3 million of provision expense associated with these loans for the nine months ended September 30, 2011.

| (dollars in thousands) | Carrying Value | Fair Value Measurements at December 31, 2010 Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Collateral Dependent Impaired Loans** | | | | |
| Commercial loans | **$ 14,721** | | | **$ 14,721** |
| Commercial real estate loans | **8,112** | | | **8,112** |

As of December 31, 2010, impaired commercial and commercial real estate loans had a principal amount of $36.4 million, with a valuation allowance of $13.6 million. Old National recorded $7.1 million of provision expense associated with these loans in 2010.

**Financial instruments recorded using fair value option**

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

The Company has elected the fair value option for residential mortgage loans held for sale. For these loans, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on the financial assets (except any that are on nonaccrual status). None of these loans are 90 days or more past due, nor are any on nonaccrual status. Included in the income statement are $41 thousand and $141 thousand of interest income for residential loans held for sale for the three and nine months ended September 30, 2011, respectively. 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.

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. 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 2011, the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected is as follows. Accrued interest at period end is included in the fair value of the instruments.

| (dollars in thousands) | Aggregate Fair Value | Difference | Contractual Principal |
|---|---|---|---|
| Residential loans held for sale | $ 4,710 | $ 158 | $ 4,552 |

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, 2011:

**Changes in Fair Value for the Three Months ended September 30, 2011, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option**

| (dollars in thousands) | Other Gains and (Losses) | Interest Income | Interest (Expense) | Total Changes in Fair Values Included in Current Period Earnings |
|---|---|---|---|---|
| Residential loans held for sale | $ (7) | $ | $ | $ (7) |

**Changes in Fair Value for the Nine Months ended September 30, 2011, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option**

| (dollars in thousands) | Other Gains and (Losses) | Interest Income | Interest (Expense) | Total Changes in Fair Values Included in Current Period Earnings |
|---|---|---|---|---|
| Residential loans held for sale | $ 179 | $ | $ (1) | $ 178 |

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

| (dollars in thousands) | Aggregate Fair Value | Difference | Contractual Principal |
|---|---|---|---|
| Residential loans held for sale | **$ 3,512** | **$ 81** | **$ 3,431** |

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) | Other Gains and (Losses) | Interest Income | Interest (Expense) | Total Changes in Fair Values Included in Current Period Earnings |
|---|---|---|---|---|
| Residential loans held for sale | **$ (136)** | **$ 2** | **$** | **$ (134)** |

**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) | Other Gains and (Losses) | Interest Income | Interest (Expense) | Total Changes in Fair Values Included in Current Period Earnings |
|---|---|---|---|---|
| Residential loans held for sale | **$ (206)** | **$ 3** | **$** | **$ (203)** |

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The carrying amounts and estimated fair values of financial instruments, not previously presented in this note, at September 30, 2011 and December 31, 2010 are as follows:

| (dollars in thousands) | Carrying Value | Fair Value |
| --- | --- | --- |
| **September 30, 2011** | | |
| **Financial Assets** | | |
| Cash, due from banks, federal funds sold and money market investments | $ 269,229 | $ 269,229 |
| Investment securities held-to-maturity: | | |
| U.S. Government-sponsored entities and agencies | 177,963 | 189,617 |
| Mortgage-backed securities Agency | 91,622 | 95,372 |
| State and political subdivisions | 216,643 | 225,384 |
| Other securities | 7,054 | 7,054 |
| Federal Home Loan Bank stock | 34,870 | 34,870 |
| Loans, net (including covered loans): | | |
| Commercial | 1,376,700 | 1,425,792 |
| Commercial real estate | 1,465,571 | 1,531,385 |
| Residential real estate | 913,500 | 990,779 |
| Consumer credit | 1,030,033 | 1,082,806 |
| FDIC indemnification asset | 168,091 | 168,091 |
| Accrued interest receivable | 43,713 | 43,713 |
| | | |
| **Financial Liabilities** | | |
| Deposits: | | |
| Noninterest-bearing demand deposits | $ 1,728,548 | $ 1,728,548 |
| NOW, savings and money market deposits | 3,447,992 | 3,447,992 |
| Time deposits | 1,690,723 | 1,734,907 |
| Short-term borrowings: | | |
| Federal funds purchased | 948 | 948 |
| Repurchase agreements | 328,720 | 328,716 |
| Other short-term borrowings | 11,336 | 11,336 |
| Other borrowings: | | |
| Junior subordinated debenture | 16,000 | 12,788 |
| Subordinated notes | 13,000 | 12,999 |
| Repurchase agreements | 50,000 | 54,848 |
| Federal Home Loan Bank advances | 211,006 | 227,938 |
| Subordinated bank notes | 150,000 | 150,000 |
| Capital lease obligation | 4,273 | 5,094 |
| Accrued interest payable | 10,366 | 10,366 |
| FDIC true-up liability | 14,090 | 14,090 |
| Standby letters of credit | 508 | 508 |
| | | |
| **Off-Balance Sheet Financial Instruments** | | |
| Commitments to extend credit | $ | $ 1,422 |

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| (dollars in thousands) | Carrying Value | Fair Value |
|---|---|---|
| **December 31, 2010** | | |
| **Financial Assets** | | |
| Cash, due from banks, federal funds sold and money market investments | $ 251,552 | $ 251,552 |
| Investment securities held-to-maturity: | | |
| U.S. Government-sponsored entities and agencies | 303,265 | 301,809 |
| Mortgage-backed securities Agency | 117,013 | 119,080 |
| State and political subdivisions | 217,381 | 204,379 |
| Other securities | 551 | 375 |
| Federal Home Loan Bank stock | 31,937 | 31,937 |
| Loans, net (including impaired loans): | | |
| Commercial | 1,185,194 | 1,220,464 |
| Commercial real estate | 909,742 | 952,885 |
| Residential real estate | 662,396 | 710,865 |
| Consumer credit | 913,810 | 969,263 |
| Accrued interest receivable | 42,971 | 42,971 |
| | | |
| **Financial Liabilities** | | |
| Deposits: | | |
| Noninterest-bearing demand deposits | $ 1,276,024 | $ 1,276,024 |
| NOW, savings and money market deposits | 2,711,644 | 2,711,644 |
| Time deposits | 1,475,257 | 1,520,093 |
| Short-term borrowings: | | |
| Federal funds purchased | 1,663 | 1,663 |
| Repurchase agreements | 287,414 | 287,416 |
| Other short-term borrowings | 9,155 | 9,155 |
| Other borrowings: | | |
| Junior subordinated debenture | 8,000 | 7,998 |
| Repurchase agreements | 50,000 | 54,104 |
| Federal Home Loan Bank advances | 211,696 | 220,531 |
| Subordinated bank notes | 150,000 | 154,420 |
| Capital lease obligation | 4,307 | 5,138 |
| Accrued interest payable | 7,860 | 7,860 |
| Standby letters of credit | 518 | 518 |
| | | |
| **Off-Balance Sheet Financial Instruments** | | |
| Commitments to extend credit | $ | $ 1,311 |

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: Old National Bank is a member of the Federal Home Loan Bank system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Loans: The fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.
Covered loans: Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting current market rates for new originations of comparable loans adjusted for the risk inherent in the cash flow estimates. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.
FDIC indemnification asset: The loss sharing asset was measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable with the assets should the Bank choose to dispose of the assets. Fair value was estimated using projected cash flows related to the loss sharing agreement based on the expected reimbursements for losses and the applicable loss sharing percentage. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.
Accrued interest receivable: The carrying amount approximates fair value.
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.
FDIC true-up liability: The purchase and assumption agreement allows the FDIC to recover a portion of the loss share funds previously paid out under the loss sharing agreements in the event losses fail to reach the expected loss estimate ( FDIC True-Up Liability ). The calculation is based on the net present value of expected future cash payments to be made by the Bank to the FDIC at the conclusion of the loss share agreements. The discount rate used was based on current market rates. The expected cash flows were calculated in accordance with the loss share agreements and are based primarily on the expected losses on the covered assets.
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 amounts of these financial instruments, see Notes 18 and 19.

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## 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, 2011 and 2010, and financial condition as of September 30, 2011, compared to September 30, 2010, and December 31, 2010. 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 2011, net income available to common shareholders was $16.8 million, compared to $11.9 million for the period ending September 30, 2010. Diluted earnings per share available to common shareholders were $0.18 per share, compared to diluted earnings per share of $0.13 in the third quarter of 2010. There was essentially no provision for loan losses during the third quarter of 2011 compared to $6.4 million for the third quarter of 2010.

The most significant impact to third quarter earnings was the acquisition of Integra Bank, Old National s first FDIC-assisted transaction, which closed on July 29, 2011. Old National assumed assets with a fair value of approximately $1.8 billion, including $785.8 million of loans and $34.1 million of other real estate owned. As part of the agreement, Old National entered into a loss sharing arrangement with the FDIC that covers loans and other real estate owned, including single family residential mortgage and construction loans, as well as commercial loans ( Covered Assets ). Covered Assets were marked to fair value at acquisition, including estimated loan impairments. Old National expects the arrangements with the FDIC and acquisition discounts to provide substantial protection against losses on these covered assets.

The accretion of this loan mark and other fair value adjustments favorably impacted our net interest income by $7.5 million in the third quarter. Offsetting this benefit were acquisition and integration costs of $6.8 million primarily related to $2.2 million of retention and transitional services for the former Integra associates as well as other professional fees of $3.9 million. Old National expects to incur an additional $2.5 to $3.5 million of acquisition and integration costs in the fourth quarter of 2011 as systems are converted and potentially another $3.5 to $4.5 million in 2012, primarily related to branch divestitures.

All of Integra s 52 branches initially re-opened as branches of Old National, however, the majority of these branches will be consolidated into Old National financial centers that are located near-by. Through October 31, 2011, thirteen former Integra branches have been closed and customers transitioned to other branches. In addition, certain branches located outside of Old National s desired footprint will be sold. A definitive agreement was signed on October 3, 2011, to sell certain of the Chicago-based assets and liabilities acquired.

Management believes that subsequent to the systems conversion, scheduled for December 2011, and the branch consolidations, Old National should achieve a 75% reduction in operating expense associated with the Integra franchise, bringing Old National closer to its aspirational efficiency ratio target of 65%.

As part of the acquisition, Old National also assumed $1.4 billion in deposits at estimated fair value. Demand and savings deposit accounts make up $729.8 million of these assumed deposits. Our ratio of deposits as a percent of total funding has improved as a result of the acquisition and subsequent restructuring, and typically deposits are lower cost than wholesale funding. Subsequent to quarter-end, the Old National legacy bank repaid $150 million of subordinated bank notes at a fixed rate of 6.75%, further reducing our higher cost wholesale funding.

The estimated fair value of the core deposit intangible associated with the acquired deposits is $4.3 million and will be amortized utilizing an accelerated amortization method over an estimated economic life of five years. Goodwill of $29.7 million was also recorded in conjunction with the transaction.

Regulatory capital remained strong after the transaction with consolidated Tier 1 capital to total average assets ( Leverage Ratio ) of 7.88% and total capital to risk-adjusted total assets of 13.67%. These ratios were 7.08% and 12.27%, respectively, for the Bank.

**RESULTS OF OPERATIONS**

The following table sets forth certain income statement information of Old National for the three and nine months ended September 30, 2011 and 2010:

| (dollars in thousands) | Three Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | % Change | Nine Months Ended September 30, 2011 | Nine Months Ended September 30, 2010 | % Change |
|---|---|---|---|---|---|---|
| **Income Statement Summary:** | | | | | | |
| Net interest income | **$ 72,592** | $ 54,168 | 34.0% | **$ 196,278** | $ 164,439 | 19.4% |
| Provision for loan losses | **(82)** | 6,400 | (101.3) | **6,437** | 23,681 | (72.8) |
| Noninterest income | **47,326** | 41,979 | 12.7 | **133,736** | 127,945 | 4.5 |
| Noninterest expense | **95,158** | 76,102 | 25.0 | **254,841** | 231,033 | 10.3 |
| **Other Data:** | | | | | | |
| Return on average common equity | **6.61**% | 5.40% | | **6.75**% | 5.02% | |
| Efficiency ratio (1) | **77.56** | 77.66 | | **74.47** | 77.21 | |
| Tier 1 leverage ratio | **7.88** | 10.24 | | **7.88** | 10.24 | |
| Net charge-offs to average loans | **0.50** | 0.66 | | **0.44** | 0.76 | |

(1) Efficiency ratio is defined as noninterest expense before amortization of intangibles as a percent of fully taxable equivalent net interest income and noninterest income, excluding net gains from securities transactions. This presentation excludes intangible amortization and net securities gains, as is common in other company disclosures, and better aligns with true operating performance.

**Net Interest Income**

Net interest income is our most significant component of earnings, comprising over 59% of revenues at September 30, 2011. 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.

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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.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | **2011** | 2010 | **2011** | 2010 |
| Net interest income | **$ 72,592** | $ 54,168 | **$ 196,278** | $ 164,439 |
| Taxable equivalent adjustment | **2,914** | 3,154 | **8,842** | 10,335 |
| Net interest income taxable equivalent | **$ 75,506** | $ 57,322 | **$ 205,120** | $ 174,774 |
| Average earning assets | **$ 7,626,682** | $ 6,700,212 | **$ 7,287,482** | $ 6,886,583 |
| Net interest margin | **3.81%** | 3.23% | **3.59%** | 3.18% |
| Net interest margin fully taxable equivalent | **3.96%** | 3.42% | **3.75%** | 3.38% |

Net interest income was $72.6 million and $196.3 million for the three and nine months ended September 30, 2011, up from the $54.2 million and $164.4 million reported for the three and nine months ended September 30, 2010. Taxable equivalent net interest income was $75.5 million and $205.1 million for the three and nine months ended September 30, 2011, up from the $57.3 million and $174.8 million reported for the three and nine months ended September 30, 2010. The net interest margin on a fully taxable equivalent basis was 3.96% and 3.75% for the three and nine months ended September 30, 2011, compared to 3.42% and 3.38% for the three and nine months ended September 30, 2010. The increase in both net interest income and net interest margin is primarily due to the acquisition of Monroe Bancorp on January 1, 2011 and Integra Bank on July 29, 2011 combined with a change in the mix of interest earning assets and interest-bearing liabilities. The accretion associated with the purchased assets benefited net interest margin by 68 basis points and 42 basis points during the three and nine months ended September 30, 2011. We expect this benefit to decline each quarter. The yield on interest earning assets increased 17 basis points while the cost of interest-bearing liabilities decreased 45 basis points in the quarterly year-over-year comparison. The yield on average earning assets increased 17 basis points from 4.51% to 4.68% while the cost of interest-bearing liabilities decreased 45 basis points from 1.44% to 0.99% in the quarterly year-over-year comparison. In the year-to-date comparison, the yield on average earning assets decreased 2 basis points from 4.56% to 4.54% while the cost of interest-bearing liabilities decreased 46 basis points from 1.51% to 1.05% .

Average earning assets were $7.627 billion for the three months ended September 30, 2011, compared to $6.700 billion for the three months ended September 30, 2010, an increase of 13.8%, or $926.5 million. Average earning assets were $7.287 billion for the nine months ended September 30, 2011, compared to $6.887 billion for the nine months ended September 30, 2010, an increase of 5.8%, or $400.9 million. Included in average earning assets for the nine months ended September 30, 2011 is approximately $542.8 million from the Monroe Bancorp acquisition, which was acquired on January 1, 2011 and included for a full nine months, and $181.4 million from the Integra Bank acquisition, which was acquired on July 29, 2011 and included for two of the nine months. Significantly affecting average earning assets at September 30, 2011 compared to September 30, 2010, was the increase in the size of the loan portfolio combined with a decrease in the size of the investment portfolio. In the year-to-date comparison, a $564.4 million increase in average loans was partially offset by a $168.9 million decrease in average investment securities. The increase in average loans is a result of the Monroe Bancorp and Integra Bank acquisitions. We adjusted the composition of the investment portfolio to manage the effective duration of the portfolio and reduce the leverage on the balance sheet as proceeds from principal and interest payments and securities sales were used to reduce wholesale funding. Commercial and commercial real estate loans continue to be affected by continued weak loan demand in our markets, more stringent loan underwriting standards and our desire to lower future potential credit risk by being cautious towards the real estate market. Year over year, the loan portfolio, which generally has an average yield higher than the investment portfolio, has increased as a percent of interest earning assets.

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Also positively affecting margin was an increase in noninterest-bearing demand deposits combined with decreases in time deposits and other borrowings. In the first quarter of 2011, we prepaid $17.2 million of FHLB advances. In the third quarter of 2011, we prepaid $102.0 million of FHLB advances and $80.0 million of structured repurchase agreements. In the fourth quarter of 2010, we prepaid $50.0 million of FHLB advances and redeemed $100.0 million of 8.0% trust preferred securities. Year over year, time deposits and other borrowings, which have an average interest rate higher than other types of deposits, 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 a credit of $0.1 million for the three months ended September 30, 2011, compared to $6.4 million of expense for the three months ended September 30, 2010. The provision for loan losses was $6.4 million for the nine months ended September 30, 2011, compared to $23.7 million for the nine months ended September 30, 2010. The lower provision in 2011 is primarily attributable to the changing portfolio mix and improved risk profile.

**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, 2011 was $47.3 million, an increase of $5.3 million, or 12.7%, from the $42.0 million reported for the three months ended September 30, 2010. For the nine months ended September 30, 2011, noninterest income was $133.7 million, an increase of $5.8 million, or 4.5%, from the $127.9 million reported for the nine months ended September 30, 2010.

Net securities gains were $2.9 million and $4.5 million for the three and nine months ended September 30, 2011, compared to net securities gains of $3.2 million and $9.5 million for the three and nine months ended September 30, 2010. Included in the third quarter and first nine months of 2011 are securities gains of $2.9 million and $5.0 million, respectively. Partially offsetting these gains for the nine months ended September 30, 2011 were other-than-temporary-impairment charges of $0.5 million on three non-agency mortgage-backed securities. Included in the third quarter and first nine months of 2010 are securities gains of $3.3 million and $12.8 million, respectively. 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.

Wealth management fees were $5.1 million and $15.5 million for the three and nine months ended September 30, 2011, compared to $3.8 million and $12.1 million for the three and nine months ended September 30, 2010. The increase was primarily due to the acquisition of Monroe Bancorp on January 1, 2011 and the trust business of Integra Bank on June 1, 2011.

Service charges and overdraft fees on deposit accounts were $14.0 million and $38.1 million for the three and nine months ended September 30, 2011, compared to $12.4 million and $37.5 million for the three and nine months ended September 30, 2010. The increase in revenue is primarily attributable to the Integra Bank and Monroe Bancorp acquisitions. 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 $6.8 million and $18.7 million for the three and nine months ended September 30, 2011, compared to $5.8 million and $17.3 million for the three and nine months ended September 30, 2010. The increase in debit card usage is primarily attributable to the Monroe Bancorp and Integra Bank acquisitions.

Mortgage banking revenue was $2.6 million for the nine months ended September 30, 2011, compared to $1.8 million for the nine months ended September 30, 2010. Mortgage fee revenue increased as a result of fluctuation in the value of mortgage derivatives and our decision to sell more loans to the secondary market.

Investment product fees were $3.0 million and $8.5 million for the three and nine months ended September 30, 2011, compared to $2.3 million and $6.6 million for the three and nine months ended September 30, 2010. The increases are primarily as a result of increases in annuity fees and other investment advisory fees.

Revenue from company-owned life insurance was $3.9 million for the nine months ended September 30, 2011, compared to $3.1 million for the nine months ended September 30, 2010. We anticipate this revenue will continue to slowly improve.

Fluctuations in the value of our derivatives resulted in a gain on derivatives of $0.1 million and $0.7 million for the three and nine months ended September 30, 2011 as compared to a gain on derivatives of $0.4 million and $1.4 million in the three and nine months of 2010.

Other income increased $0.9 million and $1.8 million for the three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010. The increase in the quarterly comparison was primarily as a result of an increase in rental income from an operating lease acquired from Integra and rental income from other real estate owned. The increase in the year-to-date comparison was primarily as a result of gains on sales of other real estate owned combined with an increase in rental income from an operating lease and from other real estate owned.

**Noninterest Income Related to Covered Assets**

Income and expense from FDIC loss sharing agreements is reflected in FDIC Indemnification asset accretion/amortization. This balance includes discount accretion and gain on the write-up of the FDIC indemnification asset and expense from the reduction of the FDIC indemnification asset upon the removal of loans, OREO and unfunded loan commitments. Loans are removed when they have been fully paid off, fully charged off, sold or transferred to OREO. FDIC indemnification asset accretion/amortization also includes income recognized on the portion of expenses related to covered assets that are reimbursable by the FDIC, net of income due to the FDIC, as well as the income statement effects of other loss share transactions.

The net change in the FDIC indemnification asset was $0.5 million for the third quarter of 2011. The income was attributable to indemnification asset accretion.

**Noninterest Expense**

Noninterest expense for the three months ended September 30, 2011, totaled $95.2 million, an increase of $19.1 million, or 25.0%, from the $76.1 million recorded for the three months ended September 30, 2010. For the nine months ended September 30, 2011, noninterest expense totaled $254.8 million, an increase of $23.8 million, or 10.3%, from the $231.0 million recorded for the nine months ended September 30, 2010. The acquisition of Monroe Bancorp and Integra Bank were the primary reasons for the increase in noninterest expenses. Noninterest expense for Monroe Bancorp totaled approximately $3.0 million and $17.9 million for the three and nine months ended September 30, 2011, which includes approximately $5.7 million of acquisition and integration costs for the nine months ended September 30, 2011. Noninterest expense for Integra Bank totaled $13.1 million for the three and nine months ended September 30, 2011, which includes approximately $6.8 million of acquisition and integration costs. Also included in the third quarter of 2011 is approximately $3.2 million for the resumption of the incentive plan and $2.0 million accrued for potential litigation settlement.

Salaries and benefits is the largest component of noninterest expense. For the three months ended September 30, 2011, salaries and benefits were $52.3 million compared to $41.7 million for the three months ended September 30, 2010. For the nine months ended September 30, 2011, salaries and benefits were $139.9 million compared to $125.2 million for the nine months ended September 30, 2010. Included in the third quarter of 2011 is $1.2 million of salary and benefits expense associated with former Monroe Bancorp associates and $5.9 million of salary and benefits expense associated with former Integra Bank associates. Included in the $5.9 million is $2.2 million of expense for retention and other transitional services. Also included in the third quarter of 2011 is approximately $3.2 million for the resumption of the incentive plan, a $0.7 million increase in employment taxes and a $0.8 million increase in hospitalization insurance. Included in the first nine months of 2011 is $8.1 million, including severance, of salary and benefits expense associated with former Monroe Bancorp associates, $5.9 million of salary and benefits expense, including retention, associated with former Integra Bank associates and approximately $1.7 million of expense associated with the April 1, 2011 annual merit increases. Also included in the nine months of 2011 is approximately $3.2 million for the resumption of the incentive plan, a $1.0 million increase in employment taxes and a $1.7 million increase in hospitalization insurance.

Occupancy expense was $13.3 million and $37.8 million for the three and nine months ended September 30, 2011, compared to $11.7 million and $35.8 million for the three and nine months ended September 30, 2010. The increase was primarily attributable to the rent paid on Integra Bank s 52 financial centers.

Professional fees increased $4.3 million for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. Professional fees increased $5.0 million for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. The increase in the quarterly comparison is primarily attributable to other professional fees associated with the acquisition of Integra Bank in the third quarter of 2011. The increase in the year-to-date comparison is primarily attributable to other professional fees associated with the acquisition of Monroe Bancorp in the first quarter of 2011 and the acquisition of Integra Bank in the third quarter of 2011.

Included in the third quarter of 2010 was approximately $0.9 million in loss on extinguishment of debt for the prepayment of a long-term repurchase agreement. Included in the nine months ended September 30, 2010 was approximately $2.3 million in loss on extinguishment of debt for the prepayment of an FHLB advance and two long-term repurchase agreements. There was no loss on extinguishment of debt in 2011.

The increase in the expense for amortization of intangibles is primarily due to the core deposit intangibles and trust relationship intangible associated with the acquisition of Monroe Bancorp and Integra Bank and subsequent amortization of these assets.

Other expense for the three months ended September 30, 2011, totaled $5.6 million, an increase of $2.3 million compared to the three months ended September 30, 2010. Other expense for the nine months ended September 30, 2011, totaled $11.6 million, an increase of $1.4 million compared to the nine months ended September 30, 2010. The increases are primarily attributable to changes in the provision for unfunded commitments and an accrual for a potential litigation settlement of $2.0 million in September 2011.

**Noninterest Expense Related to Covered Assets**

Noninterest expense related to covered assets includes OREO expense, legal and professional expense and other covered asset-related expenses, and may be subject to FDIC reimbursement. Expenses must meet certain FDIC criteria in order for the expense amounts to be reimbursed. Certain amounts reflected in these balances may not be reimbursed by the FDIC if they do not meet the criteria.

Expense of $164 thousand was recorded during the third quarter of 2011 associated with holding and maintaining OREO properties assumed in the Integra acquisition.

**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 32.4% for the three months ended September 30, 2011, compared to 12.8% for the three months ended September 30, 2010. The provision for income taxes, as a percentage of pre-tax income, was 26.9% for the nine months ended September 30, 2011, compared to 13.8% for the nine months ended September 30, 2010. In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at September 30, 2011 based on the current estimate of the effective annual rate. The tax rate increased in the third quarter and first nine months of 2011 as a result of an increase in pre-tax book income while tax-exempt income remained relatively stable. See Note 16 to the consolidated financial statements for additional information.

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## FINANCIAL CONDITION

### Overview

At September 30, 2011, our assets were $8.933 billion, a 19.0% increase compared to September 30, 2010 assets of $7.506 billion, and an increase of 23.0% compared to December 31, 2010 assets of $7.264 billion. The increase is primarily a result of the acquisition of Monroe Bancorp, which occurred on January 1, 2011 and the acquisition of Integra Bank, which occurred in the third quarter of 2011. The increase in purchased loan balances and interest earning cash balances has more than offset the decrease in investment securities over the past twelve months. We are continuing to reduce our reliance on higher cost deposits and wholesale funding. Year over year, time deposits and other borrowings, which have an average interest rate higher than other types of deposits, 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 held for sale, money market investments, interest earning accounts with the Federal Reserve and trading securities. Earning assets were $7.715 billion at September 30, 2011, an increase of 14.6% from September 30, 2010.

*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 $91.6 million of 15- and 20-year fixed-rate mortgage pass-through securities, $178.0 million of U.S. government-sponsored entity and agency securities and $216.6 million of state and political subdivision securities in our held-to-maturity investment portfolio at September 30, 2011.

Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled $2.8 million at September 30, 2011.

At September 30, 2011, the total investment securities portfolio was $2.784 billion compared to $2.981 billion at September 30, 2010, a decrease of $196.7 million or 6.6%. Investment securities increased $153.7 million compared to December 31, 2010, an increase of 5.8%. Investment securities represented 36.1% of earning assets at September 30, 2011, compared to 44.3% at September 30, 2010, and 40.3% at December 31, 2010. The increase in investment securities since December 31, 2010 is a result of the Monroe Bancorp and Integra Bank acquisitions. Included in the September 30, 2011 investment securities portfolio is approximately $111.0 million related to our acquisition of Monroe Bancorp and $373.1 million related to our acquisition of Integra Bank. We adjusted the composition of the investment portfolio to manage the effective duration of the portfolio and reduce the leverage on the balance sheet as proceeds from principal and interest payments and cash flows from sales, calls and maturities of securities were used to reduce wholesale funding. 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, 2011, management does not intend to sell any available-for-sale securities with an unrealized loss position.

The investment securities available-for-sale portfolio had net unrealized gains of $47.8 million at September 30, 2011, an increase of $12.0 million compared to net unrealized gains of $35.8 million at September 30, 2010, and an increase of $41.4 million compared to net unrealized gains of $6.4 million at December 31, 2010. A $0.5 million charge was recorded during the first nine months of 2011 related to other-than-temporary-impairment on three non-agency mortgage-backed securities. 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. 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 3.51% at September 30, 2011, compared to 3.80% at September 30, 2010, and 4.23% at December 31, 2010. 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 3.30% for the three months ended September 30, 2011, compared to 4.01% for the three months ended September 30, 2010, and 3.92% for the three months ended December 31, 2010. Average yields on investment securities, on a taxable equivalent basis, were 3.52%, 4.22% and 4.15% for the nine months ended September 30, 2011 and 2010, and for the year ended December 31, 2010.

*Residential Loans Held for Sale*

Residential loans held for sale were $4.7 million at September 30, 2011, compared to $3.5 million at September 30, 2010, and $3.8 million at December 31, 2010. 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, timing of loan sales to the secondary market and the percentage of residential loans being retained. The majority of new production during 2010 and 2011 was retained in Old National s loan portfolio, resulting in a low amount of residential loans held for sale.

We have elected the fair value option under FASB ASC 825-10 (SFAS No. 159) for residential loans held for sale. The aggregate fair value exceeded the unpaid principal balances by $0.2 million and $0.1 million as of September 30, 2011 and September 30, 2010, respectively. At December 31, 2010, the aggregate fair value equaled the unpaid principal balance.

*Commercial and Commercial Real Estate Loans*

Commercial and commercial real estate loans, including covered loans, are the largest classification within earning assets, representing 37.5% of earning assets at September 30, 2011, an increase from 33.4% at September 30, 2010, and an increase from 33.0% at December 31, 2010. At September 30, 2011, commercial and commercial real estate loans, including covered loans, were $2.897 billion, an increase of $648.3 million since September 30, 2010, and an increase of $742.9 million since December 31, 2010. Included in the total for September 30, 2011 is approximately $307.0 million related to our acquisition of Monroe Bancorp and $527.2 million related to our acquisition of Integra Bank. Weak loan demand in our markets continues to affect loan growth. Our conservative underwriting standards have also contributed to slower loan growth. We continue to be cautious towards the real estate market in an effort to lower credit risk.

*Consumer Loans*

At September 30, 2011, consumer loans, including automobile loans, personal and home equity loans and lines of credit, increased $66.2 million or 6.8% compared to September 30, 2010, and increased $113.0 million or 12.2% since December 31, 2010. Included in the total for September 30, 2011 is approximately $35.4 million related to our acquisition of Monroe Bancorp and $190.7 million related to our acquisition of Integra Bank.

*Residential Real Estate Loans*

At September 30, 2011, residential real estate loans, including covered loans, held in our loan portfolio were $916.7 million, an increase of $252.0 million, or 37.9%, from December 31, 2010 and an increase of $433.7 million, or 89.8%, from September 30, 2010. In addition to organic loan production, September 30, 2011 totals also include approximately $33.3 million acquired from Monroe Bancorp and $51.6 million acquired from Integra Bank. The majority of the growth in residential real estate loans began in the fourth quarter of 2010, primarily as a result of a new mortgage product that was introduced. Over the past twelve months new loan production has been greater than payments on existing loans.

**Covered Assets**

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. ( Integra ) in an FDIC assisted transaction. The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned ( OREO ). Loans comprise the majority of the assets acquired and are subject to loss share agreements with the FDIC whereby Old National is indemnified against 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0% reimbursement, and 80% of losses in excess of $467.2 million with respect to covered assets.

A summary of covered assets at September 30, 2011 is presented below:

| (dollars in thousands) | | September 30, 2011 |
|---|---|---|
| Loans, net of discount & allowance | $ | 710,963 |
| Other real estate owned | | 31,908 |
| Total covered assets | $ | 742,871 |

**Goodwill and Other Intangible Assets**

Goodwill and other intangible assets at September 30, 2011, totaled $302.3 million, an increase of $106.7 million compared to $195.6 million at September 30, 2010, and an increase of $108.2 million compared to $194.1 million at December 31, 2010. During the first quarter of 2011, we recorded $78.9 million of goodwill and other intangible assets associated with the acquisition of Monroe Bancorp. Approximately $75.7 million is included in the Community Banking column for segment reporting and $3.2 million is included in the Other column for segment reporting. During the second quarter of 2011, Old National recorded $1.3 million of customer relationship intangibles associated with the trust business of Integra Wealth Management and Trust, which is included in the Other segment. During the third quarter of 2011, we recorded $34.0 million of goodwill and other intangible assets associated with the acquisition of Integra Bank, which is included in the Community Banking column for segment reporting.

**FDIC Indemnification Asset**

Because the FDIC will reimburse Old National for losses incurred on certain acquired loans, an indemnification asset (FDIC loss share receivable) is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The loss share agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. At September 30, 2011, the FDIC indemnification asset was $168.1 million.

**Other Assets**

Other assets have increased $57.3 million, or 29.4%, since December 31, 2010, primarily as a result of increases in deferred tax assets, fluctuations in the fair value of derivative financial instruments, and the addition of derivative instruments assumed in the Integra acquisition.

**Funding**

Total funding, comprised of deposits and wholesale borrowings, was $7.652 billion at September 30, 2011, an increase of 19.8% from $6.385 billion at September 30, 2010, and an increase of 23.8% from $6.183 billion at December 31, 2010. Included in total funding were deposits of $6.867 billion at September 30, 2011, an increase of $1.428 billion, or 26.2%, compared to September 30, 2010, and an increase of $1.404 billion compared to December 31, 2010. Included in total deposits at September 30, 2011 are $542.4 million from the acquisition of Monroe Bancorp and $994.4 million from the acquisition of Integra Bank. Noninterest-bearing deposits increased 36.4%, or $461.1 million, compared to September 30, 2010. Time deposits increased 4.5%, or $72.6 million, while savings deposits increased 55.3%, or $578.8 million, compared to September 30, 2010. NOW deposits increased 30.4%, or $353.5 million, compared to September 30, 2010. Money market deposits decreased 11.1%, or $38.2 million compared to September 30, 2010. Year over year, we have experienced an increase in noninterest-bearing demand deposits.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At September 30, 2011, wholesale borrowings, including short-term borrowings and other borrowings, decreased $161.2 million, or 17.0%, from September 30, 2010 and increased $64.7 million, or 9.0%, from December 31, 2010, respectively. Included in wholesale funding at September 30, 2011 is $47.1 million from the acquisition of Monroe Bancorp and $9.7 million from the acquisition of Integra Bank. Wholesale funding as a percentage of total funding was 10.3% at September 30, 2011, compared to 14.8% at September 30, 2010, and 11.6% at December 31, 2010. Short-term borrowings have decreased $26.8 million since September 30, 2010 while long-term borrowings have decreased $134.4 million since September 30, 2010. In the first quarter of 2011, we prepaid $17.2 million of FHLB advances. In the third quarter of 2011, we prepaid $102.0 million of FHLB advances and $80.0 million of structured repurchase agreements. In the fourth quarter of 2010, we prepaid $50.0 million of FHLB advances and redeemed $100.0 million of 8.0% trust preferred securities.

**FDIC True-Up Liability**

The purchase and assumption agreement allows the FDIC to recover a portion of the loss share funds previously paid out under the loss share agreements in the event losses fail to reach the expected loss estimate. As of September 30, 2011, the FDIC true-up liability was $14.1 million.

**Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities increased $36.7 million, or 18.2%, from December 31, 2010, primarily as a result of an increase in payables associated with security trades that did not settle until early October 2011 and the timing of those payments, fluctuations in the fair value of derivative financial instruments, and the addition of derivative instruments assumed in the Integra acquisition.

**Capital**

Shareholders equity totaled $1.028 billion at September 30, 2011, compared to $895.7 million at September 30, 2010, and $878.8 million at December 31, 2010. The September 30, 2011 balance includes approximately $90.1 million from the approximately 7.6 million shares of common stock that were issued in the acquisition of Monroe Bancorp. We paid cash dividends of $0.07 and $0.21 per share for the three and nine months ended September 30, 2011, which reduced equity by $19.9 million. We paid cash dividends of $0.07 and $0.21 per share for the three and nine months ended September 30, 2010, which reduced equity by $18.3 million. We repurchased shares of our stock, reducing shareholders equity by $0.3 million during the nine months ended September 30, 2011, and $0.5 million during the nine months ended September 30, 2010. The repurchases related to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by $24.4 million during the nine months ended September 30, 2011, and increased equity by $34.4 million during the nine months ended September 30, 2010. Shares issued for reinvested dividends, stock options, restricted stock and stock compensation plans increased shareholders equity by $3.0 million during the nine months ended September 30, 2011, compared to $1.9 million during the nine months ended September 30, 2010.

**Capital Adequacy**

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. At September 30, 2011, 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 decreased at December 31, 2010 primarily due to our redemption of $100 million of 8% trust preferred securities. Regulatory capital ratios at September 30, 2011 include the issuance of approximately 7.6 million shares of common stock, valued at approximately $90.1 million, in the acquisition of Monroe Bancorp during the first quarter of 2011. Goodwill of $29.7 million and core deposit intangibles of $4.1 million was recorded in conjunction with the Integra acquisition. Such goodwill and intangibles are excluded from regulatory capital as calculated under regulatory accounting practices.

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As of September 30, 2011, Old National s consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

| | Regulatory Guidelines Minimum | September 30, 2011 | September 30, 2010 | December 31, 2010 |
|---|---|---|---|---|
| **Risk-based capital:** | | | | |
| Tier 1 capital to total avg assets (leverage ratio) | 4.00% | **7.88%** | 10.24% | 9.01% |
| Tier 1 capital to risk-adjusted total assets | 4.00 | **12.17** | 15.37 | 13.57 |
| Total capital to risk-adjusted total assets | 8.00 | **13.67** | 17.25 | 14.83 |
| Shareholders equity to assets | N/A | **11.50** | 11.93 | 12.10 |

## RISK MANAGEMENT

### Overview

Management, with the oversight of the Board of Directors through its Risk and Credit Policy Committee and its Funds Management 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, 2011, we had non-agency collateralized mortgage obligations with a fair value of $95.1 million or approximately 4.2% of the available-for-sale securities portfolio. The net unrealized loss on these securities at September 30, 2011, was approximately $3.5 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. Nine non-agency mortgage-backed securities were rated below investment grade as of September 30, 2011. During the first nine months of 2011, we experienced $1.9 million of other-than-temporary-impairment losses on three of these securities, of which $0.5 million was recorded as a credit loss in earnings and $1.4 million is included in other comprehensive income. During the first nine months of 2010, we experienced $4.1 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 $1.1 million was included in other comprehensive income.

We also carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and the performance of the underlying collateral. At September 30, 2011, we had pooled trust preferred securities with a fair value of approximately $7.5 million, or 0.3% of the available-for-sale securities portfolio. During the first nine months of 2011, we experienced no other-than-temporary-impairment losses on these securities. These securities remained classified as available-for-sale and at September 30, 2011, the unrealized loss on our pooled trust preferred securities was approximately $19.8 million. During the first nine months of 2010, two of these securities experienced $0.3 million of other-than-temporary-impairment, all of which was recorded as a credit loss in earnings.

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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, 2011 are approximately $91.6 million of agency mortgage-backed securities and $216.6 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 $413.2 million at September 30, 2011.

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 often 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.

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.

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*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 it remains appropriate for the current lending environment.

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. At September 30, 2011, 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.

On January 1, 2011, Old National closed on its acquisition of Monroe Bancorp. As of September 30, 2011, acquired loans totaled $375.7 million and there was $3.6 million of other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. Old National reviewed the acquired loans and determined that as of September 30, 2011, $20.9 million met the definition of criticized, $11.0 million were considered classified, and $38.4 million were doubtful. During the three and nine months ended September 30, 2011, Old National reversed $0.3 million and accrued $2.9 million of provision expense, respectively. Our current preference would be to work these loans and avoid foreclosure actions unless additional credit deterioration becomes apparent. These assets are included in our summary of under-performing, criticized and classified assets found below.

During the third quarter of 2011, Old National acquired the banking operations of Integra Bank in an FDIC assisted transaction. As of September 30, 2011, acquired loans totaled $769.9 million and there was $31.9 million of other real estate owned. The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. At September 30, 2011, approximately $711.3 million of loans and $31.9 million of other real estate owned are covered by the loss sharing agreements and are excluded from the summary of under-performing, criticized and classified asset found below. During the three months ended September 30, 2011, Old National accrued no provision expense on these credits.
Summary of under-performing, criticized and classified assets, excluding covered assets:

| (dollars in thousands) | September 30, 2011 | September 30, 2010 | December 31, 2010 |
|---|---|---|---|
| Nonaccrual loans | | | |
| Commercial | **$ 37,739** | $ 25,519 | $ 25,488 |
| Commercial real estate | **72,717** | 28,547 | 30,416 |
| Residential real estate | **9,234** | 9,009 | 8,719 |
| Consumer | **5,102** | 6,768 | 6,322 |
| Total nonaccrual loans | **124,792** | 69,843 | 70,945 |
| Renegotiated loans not on nonaccrual | | | |
| Past due loans (90 days or more and still accruing) | | | |
| Commercial | **408** | 304 | 79 |
| Commercial real estate | **490** | | |
| Consumer | **260** | 1,060 | 493 |
| Total past due loans | **1,158** | 1,364 | 572 |
| Other real estate owned | **9,390** | 5,886 | 5,591 |
| Total under-performing assets, excluding covered assets | **$ 135,340** | $ 77,093 | $ 77,108 |
| Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans) | **$ 226,352** | $ 170,870 | $ 174,341 |
| Other classified assets (3) | **113,161** | 148,011 | 105,572 |
| Criticized loans | **98,516** | 74,991 | 84,017 |
| Total criticized and classified assets, excluding covered assets | **$ 438,029** | $ 393,872 | $ 363,930 |
| Asset Quality Ratios: | | | |
| Non-performing loans/total loans (1) (2) | **3.01%** | 1.89% | 1.90% |
| Under-performing assets/total loans and other real estate owned (1) | **3.26** | 2.08 | 2.06 |
| Under-performing assets/total assets | **1.52** | 1.03 | 1.06 |
| Allowance for loan losses/under-performing assets | **48.19** | 93.59 | 93.78 |

(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, 9 non-agency mortgage-backed securities and 1 corporate security at September 30, 2011.

Loan charge-offs, net of recoveries and excluding covered assets, totaled $4.9 million for the three months ended September 30, 2011, a decrease of $1.2 million from the three months ended September 30, 2010. Net charge-offs excluding covered assets for the nine months ended September 30, 2011 totaled $13.5 million compared to $21.1 million for the nine months ended September 30, 2010. Annualized, net charge-offs to average loans were 0.50% and 0.44% for the three and nine months ended September 30, 2011, as compared to 0.66% and 0.76% for the three and nine months ended September 30, 2010.

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Under-performing assets, excluding covered assets, totaled $135.3 million at September 30, 2011, an increase of $58.2 million compared to $77.1 million at September 30, 2010, and an increase of $58.2 million compared to $77.1 million at December 31, 2010. As a percent of total loans and other real estate owned, under-performing assets, excluding covered assets, at September 30, 2011, were 3.26%, an increase from the September 30, 2010 ratio of 2.08% and an increase from the December 31, 2010 ratio of 2.06%. Nonaccrual loans, excluding covered loans, were $124.8 million at September 30, 2011, compared to $69.8 million at September 30, 2010, and $70.9 million at December 31, 2010. The acquisition of Monroe Bancorp is the primary reason for the increases. The Monroe loans were marked to fair value at acquisition, and no allowance was brought forward on these acquired loans. Credit losses evident in the loans were included in the determination of the fair value. At September 30, 2011, under-performing assets related to Monroe Bancorp were approximately $42.0 million, which included approximately $38.4 million of nonaccrual loans.

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 six month period of performance according to the restructured terms. All of our troubled debt restructurings were included with nonaccrual loans at September 30, 2011 and consisted of $3.9 million of commercial loans and $5.5 million of commercial real estate loans. All of our troubled debt restructurings were included with nonaccrual loans at December 31, 2010 and consisted of $3.8 million of commercial loans and $1.0 million of commercial real estate loans.

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 excluding covered assets were $438.1 million at September 30, 2011, an increase of $44.2 million from September 30, 2010, and an increase of $74.2 million from December 31, 2010. The acquisition of Monroe Bancorp is the primary reason for the increases. Other classified assets include $113.2 million, $148.0 million and $105.6 million of investment securities that fell below investment grade rating at September 30, 2011, September 30, 2010 and December 31, 2010, respectively.

*Covered assets*

Summary of asset quality for covered assets at September 30, 2011:

| (dollars in thousands) | | |
|---|---|---|
| 30-59 days past due | $ | 12,626 |
| 60-89 days past due | | 1,713 |
| 90 days past due still accruing | | 692 |
| Nonaccrual | | 199,028 |
| Current | | 497,207 |
| Total covered loans | $ | 711,266 |
| Other real estate owned | $ | 31,908 |

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*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, 2011, the allowance for loan losses was $65.2 million, a decrease of $6.9 million compared to $72.1 million at September 30, 2010, and a decrease of $7.1 million compared to $72.3 million at December 31, 2010. The primary reasons for the decrease in the allowance from September 30, 2010 to September 30, 2011 were a $3.7 million decline in general allocation due to a lower level of the legacy bank s commercial and commercial real estate loans outstanding, and a $5.1 million reduction for consumer loans due to a lower level of legacy bank consumer loans, partially offset by a $1.9 million increase in the amount of specifically determined allowance for nonaccrual commercial and commercial real estate loans. As a percentage of total loans excluding loans and leases held for sale and covered loans, the allowance was 1.58% at September 30, 2011, compared to 1.95% at September 30, 2010, and 1.93% at December 31, 2010. The provision for loan losses for the nine months ended September 30, 2011, was $6.4 million compared to $23.7 million for the nine months ended September 30, 2010. The lower provision in 2011 is primarily attributable to the changing portfolio mix and improved risk profile.

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. The $5.9 million reserve for unfunded loan commitments at September 30, 2011 is classified as a liability account on the balance sheet. The reserve for unfunded loan commitments was $3.8 million at December 31, 2010. The higher reserve is the result of an increase in unfunded commitments.

**Market Risk**

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

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

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

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

- adjusting balance sheet mix or altering interest rate characteristics of assets and liabilities;
- changing product pricing strategies;
- modifying characteristics of the investment securities portfolio; or
- using derivative financial instruments, to a limited degree.

A key element in our ongoing process is to measure and monitor interest rate risk using a Net Interest Income at Risk simulation to model the interest rate sensitivity of the balance sheet and to quantify the impact of changing interest rates on the Company. The model quantifies the effects of various possible interest rate scenarios on projected net interest income over a one-year and a two-year cumulative horizon. The model assumes a semi-static balance sheet and measures the impact on net interest income relative to a base case scenario of hypothetical changes in interest rates over 24 months. The scenarios include prepayment assumptions, changes in the level of interest rates, the shape of the yield curve, and spreads between market interest rates in order to capture the impact from re-pricing, yield curve, option, and basis risks.

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Results of our simulation modeling, which assumes an immediate, parallel shift in market interest rates, project that our net interest income could change as follows over one-year and two-year horizons, relative to our base case scenario.

| | Changes in Net Interest Income | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Immediate | One Year Horizon | | | | Two Year Cumulative Horizon | | | |
| Change in the | 9/30/2011 | | 9/30/2010 | | 9/30/2011 | | 9/30/2010 | |
| Level of Interest Rates | $ Change (000s) | % Change | $ Change (000s) | % Change | $ Change (000s) | % Change | $ Change (000s) | % Change |
| + 3.00% | **(12,791)** | **-4.89%** | (3,030) | -1.38% | **(9,757)** | **-1.89%** | 10,574 | 2.38% |
| + 2.00% | **(5,723)** | **-2.19%** | (2,156) | -0.98% | **2,718** | **0.53%** | 7,219 | 1.63% |
| + 1.00% | **842** | **0.32%** | (679) | -0.31% | **9,512** | **1.84%** | 5,473 | 1.23% |
| - 1.00% | **NA** | **NA** | NA | NA | **NA** | **NA** | NA | NA |

At September 30, 2011, our simulated exposure to an increase in interest rates shows that an immediate increase in rates of 1.00% will increase our net interest income by $0.8 million or 0.32% over a one year horizon. Furthermore, rate increases of 2.00% and 3.00% would cause net interest income to decline by 2.19% and 4.89% respectively. Over a two-year horizon, the model reflects increases in net interest income for the up 1.00% and 2.00% scenarios of 1.84% and 0.53% respectively. If rates increase by 3.00%, our model indicates that net interest income would fall by 1.89%. As a result of the already low interest rate environment, we did not include a 1.00% falling scenario.

The changes in the rate sensitivity of the balance sheet from September 30, 2010 to September 30, 2011, are attributable to a smaller investment portfolio, reduced reliance on wholesale funding, and changes in the mix of the balance sheet. The mix change was driven partially by the acquisitions of Monroe Bank on January 1, 2011 and Integra Bank on July 29, 2011, which added significantly to our loan and core deposit balances.

We have also executed several strategies to position the Company in the current low rate environment to be relatively neutral to interest rate increases. For example, management has focused on reducing the size and duration of the investment portfolio at the same time it has increased its holdings of fixed-rate, residential real estate mortgages. Modeling results as of September 30, 2011, indicate that we remain within our Company s acceptable risk tolerance levels.

Old National also has longer term interest rate risk exposure, which may not be appropriately measured by Net Interest Income at Risk modeling. We use Economic Value of Equity (EVE) sensitivity analysis to evaluate the impact of long term cash flows on earnings and capital. EVE modeling involves discounting present values of all cash flows for on balance sheet and off balance sheet items under different interest rate scenarios. The discounted present value of all cash flows represents our economic value of equity. The amount of base case economic value and its sensitivity to shifts in interest rates provide a measure of the longer term re-pricing and option risk in the balance sheet. EVE simulation results are shown below, relative to base case.

| | Economic Value of Equity | | | |
|---|---|---|---|---|
| Immediate Change in | 9/30/2011 | | 9/30/2010 | |
| the Level of Interest Rates | $ Change (millions) | % Change | $ Change (millions) | % Change |
| + 3.00% | **6** | **0.86%** | (76) | -11.60% |
| + 2.00% | **20** | **2.90%** | (57) | -8.70% |
| + 1.00% | **50** | **7.42%** | (12) | -1.82% |
| - 1.00% | **NA** | **NA** | NA | NA |

At September 30, 2011, Old National s Economic Value of Equity ( EVE ) scenarios indicated positive changes to EVE in all interest rate scenarios. As of September 30, 2010, EVE changes were negative in all rate scenarios. As noted previously, these changes in EVE modeling results were driven primarily by a smaller investment portfolio and changes in the mix of the balance sheet. Modeling results at September 30, 2011, indicate that we remain within our Company s acceptable risk tolerance levels.

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.

We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. We also provide derivatives to our commercial customers in connection with managing interest rate risk. Our derivatives had an estimated fair value gain of $7.6 million at September 30, 2011, compared to an estimated fair value gain of $4.4 million at December 31, 2010. In addition, the notional amount of derivatives increased by $80.4 million from December 31, 2010, primarily as a result of derivative instruments acquired from Integra. See Note 17 to the consolidated financial statements for further discussion of derivative financial instruments.

**Liquidity Risk**

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

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

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

- Fitch Rating Service kept their long-term outlook rating as stable (unchanged) during the latest rating review on March 15, 2011
- Dominion Bond Rating Services has issued a stable outlook as of August 2, 2011
- Moody s Investor Service did not rate Old National Bancorp as of December 20, 2010.
- Moody s Investor Service downgraded Old National Bank s Long Term Rating from A1 to A2 and changed its outlook from Negative to Stable on November 1, 2011. Old National Bank s Short Term Rating was unchanged.

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The senior debt ratings of Old National and Old National Bank at September 30, 2011, are shown in the following table.

**SENIOR DEBT RATINGS**

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

N/A = not applicable

As of September 30, 2011, Old National Bank had the capacity to borrow $681 million from the Federal Reserve Bank s discount window. Old National Bank is also a member of the Federal Home Loan Bank ( FHLB ) of Indianapolis, which provides a source of funding through FHLB advances. Old National Bank maintains relationships in capital markets with brokers and dealers to issue certificates of deposits and short-term and medium-term bank notes as well.

The Parent Company has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. The Parent Company can obtain funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt and equity markets. At September 30, 2011, the Parent Company s other borrowings outstanding increased to $29.0 million as compared to $8.0 million at December 31, 2010. This increase was due to Parent Company s assumption of Monroe Bancorp s $13.0 million subordinated debt and $8.0 million trust preferred securities as of January 1, 2011. Old National s Board of Directors approved the redemption of junior subordinated debentures, resulting in the trustee of ONB Capital Trust II redeeming all $100.0 million of the 8% trust preferred securities on December 15, 2010.

Old National opted in to the Temporary Account Guarantee Program (TAGP) offered in 2008 as a part of Federal Deposit Insurance Corporation s (FDIC) Temporary Liquidity Guarantee Program (TLGP). The coverage under the TAGP program has been made permanent and all funds in a noninterest-bearing transaction account are insured in full by the FDIC through December 31, 2012. This unlimited coverage is in addition to, and separate from, the coverage of at least $250,000 available to depositors under the FDIC s general deposit insurance rules.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. During the first quarter of 2009 Old National received a $40 million dividend from the Bank Subsidiary to repurchase the $100 million of non-voting preferred shares from the Treasury. As a result of this special dividend, Old National Bank requires approval of regulatory authority for the payment of dividends to Old National. Such approval was obtained for the payment of dividends during 2010 and currently.

**OFF-BALANCE SHEET ARRANGEMENTS**

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of our customers. Our banking affiliates have entered into various agreements to extend credit, including loan commitments of $1.196 billion and standby letters of credit of $80.6 million at September 30, 2011. At September 30, 2011, approximately $1.007 billion of the loan commitments had fixed rates and $189 million had floating rates, with the floating rates ranging from 2.0% to 19.8%. At December 31, 2010, loan commitments were $1.106 billion and standby letters of credit were $74.3 million. The term of these off-balance sheet arrangements is typically one year or less.

During the second quarter of 2007, we entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of $9.0 million at September 30, 2011.

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**CONTRACTUAL OBLIGATIONS**

The following table presents our significant fixed and determinable contractual obligations at September 30, 2011:

**CONTRACTUAL OBLIGATIONS**

| | Payments Due In | | | | |
|---|---|---|---|---|---|
| (dollars in thousands) | **One Year or Less (1)** | **One to Three Years** | **Three to Five Years** | **Over Five Years** | **Total** |
| Deposits without stated maturity | $ 5,176,540 | $ | $ | $ | $ 5,176,540 |
| IRAs, consumer and brokered certificates of deposit | 268,450 | 1,120,138 | 183,754 | 118,381 | 1,690,723 |
| Short-term borrowings | 341,004 | | | | 341,004 |
| Other borrowings | 150,012 | 76,337 | 109,323 | 108,212 | 443,884 |
| Fixed interest payments (2) | 3,147 | 20,385 | 13,886 | 43,576 | 80,994 |
| Operating leases | 8,632 | 63,823 | 58,733 | 296,045 | 427,233 |
| Other long-term liabilities (3) | 250 | | | | 250 |

(1) For the remaining three months of fiscal 2011.

(2) Our subordinated bank notes, certain trust preferred securities and certain Federal Home Loan Bank advances have fixed rates ranging from 1.24% to 10.00%. All of our other long-term debt is at Libor based variable rates at September 30, 2011. The projected variable interest assumes no increase in Libor rates from September 30, 2011.

(3) Amount expected to be contributed to the pension plans in 2011. Amounts for 2012 and beyond are unknown at this time.

We rent certain premises and equipment under operating leases. See Note 18 to the consolidated financial statements for additional information on long-term lease arrangements.

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. ( Integra ) in an FDIC assisted transaction. The physical branch locations and leases were not immediately acquired by Old National in the acquisition. Old National has an option, exercisable for 90 days following the closing of the acquisition, to acquire, at fair value, any bank premises that were owned by, and to assume any leases relating to bank premises held by Integra. Old National is currently reviewing the bank premises and related leases of Integra and currently expects to acquire 16 of the Integra facilities and leases. No amounts for Integra are included in the table above.

We are party to various derivative contracts as a means to manage the balance sheet and our related exposure to changes in interest rates, to manage our residential real estate loan origination and sale activity, and to provide derivative contracts to our clients. Since the derivative liabilities recorded on the balance sheet change frequently and do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 17 to the consolidated financial statements.

In the normal course of business, various legal actions and proceedings are pending against us and our affiliates which are incidental to the business in which they are engaged. Further discussion of contingent liabilities is included in Note 18 to the consolidated financial statements.

In addition, liabilities recorded under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*) are not included in the table because the amount and timing of any cash payments cannot be reasonably estimated. Further discussion of income taxes and liabilities recorded under FASB ASC 740-10 is included in Note 16 to the consolidated financial statements.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. Certain accounting policies require management to use significant judgment and estimates, which can have a material impact on the carrying value of certain assets and liabilities. We consider these policies to be critical accounting policies. The judgment and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from estimates, which could have a material affect on our financial condition and results of operations.

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

**Goodwill and Intangibles**

**Description.** For acquisitions, we are required to record the assets acquired, including identified intangible assets, and the liabilities assumed at their fair value. These often involve estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates or other relevant factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective. Under FASB ASC 350 (SFAS No. 142 *Goodwill and Other Intangible Assets*), goodwill and indefinite-lived assets recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible asset.

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

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

**Acquired Impaired Loans**

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

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

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

**Effect if Actual Results Differ From Assumptions.** Changes in these factors, as well as changing economic conditions will likely impact the carrying value of these acquired loans as well as the carrying value of any associated indemnification assets, as the FDIC will reimburse the Company for losses incurred on certain acquired loans, but the shared-loss agreements may not fully offset the financial effects of such a situation.

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## Allowance for Loan Losses

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

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

**Judgments and Uncertainties.** We use migration analysis as a tool to determine the adequacy of the allowance for loan losses for performing commercial loans. Migration analysis is a statistical technique that attempts to estimate probable losses for existing pools of loans by matching actual losses incurred on loans back to their origination. Judgment is used to select and weight the historical periods which are most representative of the current environment.

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

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

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

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Management s analysis of probable losses in the portfolio at September 30, 2011, resulted in a range for allowance for loan losses of $9.5 million. The range pertains to general (FASB ASC 310, Receivables/SFAS 5) reserves for both retail and performing commercial loans. Specific (FASB ASC 310, Receivables/SFAS 114) reserves do not have a range of probable loss. Due to the risks and uncertainty associated with the economy, our projection of FAS 5 loss rates inherent in the portfolio, and our selection of representative historical periods, we establish a range of probable outcomes (a high-end estimate and a low-end estimate) and evaluate our position within this range. The potential effect to net income based on our position in the range relative to the high and low endpoints is a decrease of $1.2 million and an increase of $4.9 million, respectively, after taking into account the tax effects. These sensitivities are hypothetical and are not intended to represent actual results.

**Derivative Financial Instruments**

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

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

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

**Income Taxes**

**Description.** We are subject to the income tax laws of the U.S., its states and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate. FASB ASC 740-10 (FIN 48) prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 16 to the Consolidated Financial Statements for a further description of our provision and related income tax assets and liabilities.

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

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

**Valuation of Securities**

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

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

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

- The length of time and the extent to which the fair value has been less than amortized cost;
- The financial condition and near-term prospects of the issuer;
- The underlying fundamentals of the relevant market and the outlook for such market for the near future;
- Our intent to sell the debt security or whether it is more likely than not that we will be required to sell the debt security before its anticipated recovery; and
- When applicable for purchased beneficial interests, the estimated cash flows of the securities are assessed for adverse changes.

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

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

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

## FORWARD-LOOKING STATEMENTS

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

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

- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- economic conditions generally and in the financial services industry;
- expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;
- unexpected difficulties and losses related to FDIC-assisted acquisitions, including those resulting from our loss-sharing arrangements with the FDIC;
- increased competition in the financial services industry either nationally or regionally, resulting in, among other things, credit quality deterioration;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- governmental legislation and regulation, including changes in accounting regulation or standards;
- our ability to execute our business plan;
- a weakening of the economy which could materially impact credit quality trends and the ability to generate loans;
- changes in the securities markets; and
- changes in fiscal, monetary and tax policies.

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

## ITEM 3. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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## ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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

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

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

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

**Risks Related to Old National s Business**

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

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

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

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

- the time and costs associated with identifying potential new markets, as well as acquisition and merger targets;
- the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;
- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- the diversion of our management s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combined businesses;
- entry into new markets where we lack experience;
- the introduction of new products and services into our business;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and
- the risk of loss of key employees and customers.

In the current economic environment, we anticipate that in addition to opportunities to acquire other banks in privately negotiated transactions, we may also have opportunities to bid to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. These acquisitions involve risks similar to acquiring existing banks. Because FDIC-assisted acquisitions are structured in a manner that would not allow us the time normally associated with due diligence investigations prior to committing to purchase the target bank or preparing for integrations of an acquired bank, we may face additional risks in FDIC-assisted transactions. These risks include, among other things:

- loss of customers of the failed bank;
- strain on management resources related to collection and management of problem loans;
- problems related to integration of personnel and operating systems;
- the ultimate collectability of claims with the FDIC under the shared loss agreement are dependent upon the performance of the underlying covered assets, the passage of time and our ability to service loans in accordance with the shared loss agreement; and
- losses may exceed our estimates and move us into a tranche where we have 0% coverage under our loss sharing agreements with the FDIC.

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

From December 2007 through June 2009, the U.S. economy was in recession. Business activity across a wide range of industries and regions in the U.S. was greatly reduced. Although economic conditions have begun to improve, certain sectors, such as real estate, remain weak and unemployment remains high. Local governments and many businesses are still in serious difficulty due to lower consumer spending and the lack of liquidity in the credit markets.

Market conditions also led to the failure or merger of several prominent financial institutions and numerous regional and community-based financial institutions. These failures, as well as projected future failures, have had a significant negative impact on the capitalization level of the deposit insurance fund of the FDIC, which, in turn, has led to a significant increase in deposit insurance premiums paid by financial institutions.

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

The business environment has been adverse for many households and businesses in the United States and worldwide. While economic conditions in the United States and worldwide have begun to improve, there can be no assurance that this improvement will continue. Such conditions could adversely affect the credit quality of Old National s loans, results of operations and financial condition.

In response to economic and market conditions, from time to time we have undertaken initiatives to reduce our cost structure where appropriate. These initiatives, as well as any future workforce and facilities reductions, may not be sufficient to meet current and future changes in economic and market conditions and allow us to achieve profitability. In addition, costs actually incurred in connection with our restructuring actions may be higher than our estimates of such costs and/or may not lead to the anticipated cost savings. Unless and until the economy, loan demand, credit quality and consumer confidence improve, it is unlikely that revenues will increase significantly, and may be reduced further.

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

Old National makes various assumptions and judgments about the collectibility of Old National s loan portfolio, including the creditworthiness of Old National s borrowers and the value of the real estate and other assets serving as collateral for the repayment of Old National s loans. Despite Old National s underwriting and monitoring practices, the effect of the declining economy could negatively impact the ability of Old National s borrowers to repay loans in a timely manner and could also negatively impact collateral values. As a result, Old National may experience significant loan losses that could have a material adverse effect on Old National s operating results. Since Old National must use assumptions regarding individual loans and the economy, Old National s current allowance for loan losses may not be sufficient to cover actual loan losses. Old National s assumptions may not anticipate the severity or duration of the current credit cycle and Old National may need to significantly increase Old National s provision for losses on loans if one or more of Old National s larger loans or credit relationships becomes delinquent or if Old National expands its commercial real estate and commercial lending. In addition, federal and state regulators periodically review Old National s allowance for loan losses and may require Old National to increase the provision for loan losses or recognize loan charge-offs. Material additions to Old National s allowance would materially decrease Old National s net income. There can be no assurance that Old National s monitoring procedures and policies will reduce certain lending risks or that Old National s allowance for loan losses will be adequate to cover actual losses.

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

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

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

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

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

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

Credit quality issues may continue to broaden in these sectors during 2011 depending on the severity and duration of the declining economy and current credit cycle.

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

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

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

In Old National s market area, the Company encounters significant competition from other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies securities brokerage firms, insurance companies, money market mutual funds and other financial intermediaries. The Company s competitors may have substantially greater resources and lending limits than Old National does and may offer services that Old National does not or cannot provide. Old National s profitability depends upon Old National s continued ability to compete successfully in Old National s market area.

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

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

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

Old National relies upon a variety of computing platforms and networks over the internet for the purposes of data processing, communication and information exchange. Despite the safeguards instituted by Old National, such systems are susceptible to a breach of security. In addition, Old National relies on the services of a variety of third-party vendors to meet Old National s data processing and communication needs. The occurrence of any failures, interruptions or security breaches of Old National s information systems or our vendors information systems could damage our reputation, result in a loss of customer business, and expose us to civil litigation and possible financial loss. Such costs and/or losses could materially affect Old National s earnings.

**Fiduciary Activity Risk Factor**

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

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

**Risks Related to the Banking Industry**

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

Old National operates in a highly regulated environment and is subject to extensive regulation, supervision and examination by the Office of Comptroller of the Currency ( OCC ), the Federal Deposit Insurance Corporation ( FDIC ), the Board of Governors of the Federal Reserve System (the Federal Reserve ) and the State of Indiana. Such regulation and supervision of the activities in which an institution may engage is primarily intended for the protection of the depositors and federal deposit insurance funds. In addition, the Treasury has certain supervisory and oversight duties and responsibilities under EESA and the CPP. See Business Supervision and Regulation herein. Applicable laws and regulations may change, and such changes may adversely affect Old National s business. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Old National. Provisions in the legislation that affect the payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as place limitation on certain revenues those deposits may generate. Provisions in the legislation that revoke the Tier 1 capital treatment of trust preferred securities and otherwise require revisions to the capital requirements of Old National and Old National Bank could require Old National and Old National Bank to seek other sources of capital in the future. In addition, certain provisions in the legislation that do not currently apply to Old National may become effective if Old National grows and its consolidated assets increase to over ten billion.

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

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

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

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

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

***Our Internal Operations are Subject to a Number of Risks.***

Old National s internal operations are subject to certain risks, including but not limited to, data processing system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. Operational risk resulting from inadequate or failed internal processes, people, and systems includes the risk of fraud by employees or persons outside of our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

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

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

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

**Risks Related to Old National s Stock**

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

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

***The price of Old National s common stock may be volatile, which may result in losses for investors.***

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

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

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## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) **ISSUER PURCHASES OF EQUITY SECURITIES**

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publically Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| 07/01/11 - 07/31/11 | 737 | $ 10.56 | 737 | 2,216,788 |
| 08/01/11 - 08/31/11 | | | | 2,216,788 |
| 09/01/11 - 09/30/11 | | | | 2,216,788 |
| Quarter-to-date 09/30/11 | 737 | $ 10.56 | 737 | 2,216,788 |

On January 27, 2011, the Board of Directors approved the repurchase of up to 2.25 million shares of stock over a twelve month period beginning January 27, 2011 and ending January 31, 2012. During the first nine months of 2011, Old National repurchased a limited number of shares associated with employee share-based incentive programs but did not repurchase any shares on the open market.

## ITEM 5. OTHER INFORMATION

(a) None

(b) There have been no material changes in the procedure by which security holders recommend nominees to the Company s board of directors.

## ITEM 6. EXHIBITS

| Exhibit No. | Description |
|---|---|
| 2.1 | Purchase and Assumption Agreement dated November 24, 2008 by and among Old National Bancorp, Old National Bank and RBS Citizens, National Association (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 25, 2008) and amended on March 20, 2009 (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2009). |
| 2.2 | Agreement and Plan of Merger dated as of October 5, 2010 by and among Old National Bancorp and Monroe Bancorp (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 6, 2010). |
| 2.3 | Purchase and Assumption Agreement Whole Bank All Deposits, among Federal Deposit Insurance Corporation, receiver of Integra Bank National Association, Evansville, Indiana, the Federal Deposit Insurance Corporation and Old National Bank, dated July 29, 2011 (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2011). |

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|---|---|
| 3.1 | Articles of Incorporation of Old National, amended December 10, 2008 (incorporated by reference to Exhibit 3.1 of Old National s Annual Report on Form 10-K for the year ended December 31, 2008). |
| 3.2 | By-Laws of Old National, amended July 23, 2009 (incorporated by reference to Exhibit 3.2 of Old National s Annual Report on Form 10-K for the year ended December 31, 2009). |

| Exhibit No. | Description |
|---|---|
| 4.1 | Senior Indenture between Old National and The Bank of New York Trust Company (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One, NA)), as trustee, dated as of July 23, 1997 (incorporated by reference to Exhibit 4.3 to Old National s Registration Statement on Form S-3, Registration No. 333-118374, filed with the Securities and Exchange Commission on December 2, 2004). |
| 4.2 | Form of Indenture between Old National and J.P. Morgan Trust Company, National Association (as successor to Bank One, NA), as trustee (incorporated by reference to Exhibit 4.1 to Old National s Registration Statement on Form S-3, Registration No. 333-87573, filed with the Securities and Exchange Commission on September 22, 1999). |
| 4.3 | First Indenture Supplement dated as of May 20, 2005, between Old National and J.P. Morgan Trust Company, as trustee, providing for the issuance of its 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005). |
| 4.4 | Form of 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005). |
| 10.1 | Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(a) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.2 | Second Amendment to the Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(b) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.3 | 2005 Directors Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(c) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.4 | Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(d) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.5 | Second Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(e) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.6 | Third Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(f) of Old National s Current Report on |

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| | Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.7 | 2005 Executive Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(g) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.8 | Summary of Old National Bancorp s Outside Director Compensation Program (incorporated by reference to Old National s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).* |
| 10.9 | Form of Executive Stock Option Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(h) of Old National s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).* |

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| Exhibit No. | Description |
|---|---|
| 10.10 | Form of 2006 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).* |
| 10.11 | Form of 2006 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).* |
| 10.12 | Form of 2006 Non-qualified Stock Option Agreement (incorporated by reference to Exhibit 99.3 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).* |
| 10.13 | Form of 2007 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(w) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).* |
| 10.14 | Form of 2007 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(x) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).* |
| 10.15 | Form of 2007 Non-qualified Stock Option Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(y) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).* |
| 10.16 | Lease Agreement, dated December 20, 2006 between ONB One Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(aa) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006). |
| 10.17 | Lease Agreement, dated December 20, 2006 between ONB 123 Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ab) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006). |
| 10.18 | Lease Agreement, dated December 20, 2006 between ONB 4th Street Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ac) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006). |
| 10.19 | Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, and Old National Bank (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007). |
| 10.20 | Lease Supplement No. 1 dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, Old National Bank and ONB Insurance Group, Inc. (incorporated by reference to Exhibit 99.3 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007). |
| 10.21 | |

Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #2, LLC, and Old National Bank (incorporated by reference to Exhibit 99.4 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).

| Exhibit No. | Description |
|---|---|
| 10.22 | Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #3, LLC, and Old National Bank (incorporated by reference to Exhibit 99.5 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007). |
| 10.23 | Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #4, LLC, and Old National Bank (incorporated by reference to Exhibit 99.6 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007). |
| 10.24 | Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #5, LLC, and Old National Bank (incorporated by reference to Exhibit 99.7 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007). |
| 10.25 | Form of Lease Agreement dated October 19, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2007). |
| 10.26 | Form of Lease Agreement dated December 27, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (as incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 31, 2007). |
| 10.27 | Form of 2008 Non-qualified Stock Option Award Agreement (incorporated by reference to Exhibit 99.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).* |
| 10.28 | Form of 2008 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).* |
| 10.29 | Form of 2008 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.3 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).* |
| 10.30 | Old National Bancorp 2008 Incentive Compensation Plan (incorporated by reference to Appendix II of Old National s Definitive Proxy Statement filed with the Securities and Exchange Commission on March 27, 2008).* |
| 10.31 | Old National Bancorp Code of Conduct (incorporated by reference to Exhibit 14.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 29, 2008). |
| 10.32 | Letter Agreement dated December 12, 2008 by and between Old National Bancorp and the United States Department of Treasury which includes the Securities Purchase Agreement |

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|---|---|
| | Standard Terms (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008). |
| 10.33 | Form of 2009 Performance Share Award Agreement Internal Performance Measures between Old National and certain key associates (incorporated by reference to Old National s Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).* |
| 10.34 | Form of 2009 Performance Share Award Agreement Relative Performance Measures between Old National and certain key associates (incorporated by reference to Old National s Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).* |
| 10.35 | Form of 2009 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Old National s Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).* |

| Exhibit No. | Description |
|---|---|
| 10.36 | Form of 2009 Executive Stock Option Agreement between Old National and certain key associates (incorporated by reference to Old National s Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).* |
| 10.37 | Preferred Stock Repurchase Agreement dated March 31, 2009 by and between Old National Bancorp and the United States Department of Treasury (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 31, 2009). |
| 10.38 | Warrant Repurchase Agreement dated May 8, 2009 by and between Old National Bancorp and the United States Department of Treasury (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 11, 2009). |
| 10.39 | Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National s Registration Statement on Form S-3, Registration No. 333-161394 filed with the Securities and Exchange Commission on August 17, 2009). |
| 10.40 | Purchase Agreement dated September 17, 2009 between National City Commercial Capital Company, LLC, Old National Bank and Indiana Old National Insurance Company (incorporated by reference to Exhibit 10.01 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2009). |
| 10.41 | Servicing Agreement dated September 17, 2009 between National City Commercial Capital Company, LLC, Old National Bank and Indiana Old National Insurance Company (incorporated by reference to Exhibit 10.02 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2009). |
| 10.42 | Form of 2010 Performance Share Award Agreement Internal Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(as) of Old National s Annual Report on Form 10-K for the year ended December 31, 2009).* |
| 10.43 | Form of 2010 Performance Share Award Agreement Relative Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(at) of Old National s Annual Report on Form 10-K for the year ended December 31, 2009).* |
| 10.44 | Form of 2010 Service Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(au) of Old National s Annual Report on Form 10-K for the year ended December 31, 2009).* |
| 10.45 | Voting agreement by and among directors of Monroe Bancorp (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 6, 2010).* |
| 10.46 | Form of Employment Agreement for Robert G. Jones (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 2011).* |

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| 10.47 | Form of Employment Agreement for Barbara A Murphy, Christopher A. Wolking, Allen R. Mounts and Daryl D. Moore (incorporated by reference to Exhibit 10.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 2011).* |
| 10.48 | Form of 2011 Performance Share Award Agreement Internal Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(av) of Old National s Annual Report on Form 10-K for the year ended December 31, 2010).* |
| 10.49 | Form of 2011 Performance Share Award Agreement Relative Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(aw) of Old National s Annual Report on Form 10-K for the year ended December 31, 2010).* |

| Exhibit No. | Description |
|---|---|
| 10.50 | Form of 2011 Service Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(ax) of Old National s Annual Report on Form 10-K for the year ended December 31, 2010).* |
| 10.51 | Old National Bank Cash-Settled Value Appreciation Instrument, dated July 29, 2011 (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2011). |
| 10.52 | Old National Bancorp 2011 Incentive Compensation Plan is filed herewith.* |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from Old National Bancorp s Form 10-Q Report for the quarterly period ended September 30, 2011, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Changes in Shareholders Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.** |

* Management contract or compensatory plan or arrangement

** Furnished, not filed

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## SIGNATURES

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

OLD NATIONAL BANCORP
(Registrant)

By: /s/ Christopher A. Wolking

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

Date: November 8, 2011