

OLD NATIONAL BANCORP /IN/

Form 10-Q

April 30, 2010

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

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2010**

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

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

**OLD NATIONAL BANCORP**

(Exact name of Registrant as specified in its charter)

**INDIANA**

(State or other jurisdiction of  
incorporation or organization)

**35-1539838**

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

**One Main Street  
Evansville, Indiana**

(Address of principal executive offices)

**47708**

(Zip Code)

**(812) 464-1294**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting  
company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock. The Registrant has one class of common stock (no par value) with 87,161,000 shares outstanding at March 31, 2010.



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CONSOLIDATED BALANCE SHEETS**

| (dollars and shares in thousands, except per share data)  | <b>March 31,<br/>2010<br/>(unaudited)</b> | <b>December<br/>31,<br/>2009</b> | <b>March 31,<br/>2009<br/>(unaudited)</b> |
|---|---|----------------------------------|---|
| <b>Assets</b>   |   |                                  |   |
| Cash and due from banks   | \$ 121,775                                | \$ 144,156                       | \$ 131,507                                |
| Money market and other interest-earning investments   | 258,385                                   | 353,120                          | 42,588                                    |
| Total cash and cash equivalents   | 380,160                                   | 497,276                          | 174,095                                   |
| Investment securities available-for-sale, at fair value   |   |                                  |   |
| U.S. Treasury   | 51,218                                    | 1,003                            |   |
| U.S. Government-sponsored entities and agencies   | 857,966                                   | 914,238                          | 1,019,561                                 |
| Mortgage-backed securities  | 891,473                                   | 882,726                          | 1,045,142                                 |
| States and political subdivisions   | 559,719                                   | 534,595                          | 485,083                                   |
| Other securities  | 159,650                                   | 153,657                          | 160,517                                   |
| Investment securities available-for-sale  | 2,520,026                                 | 2,486,219                        | 2,710,303                                 |
| Investment securities held-to-maturity, at amortized cost (fair value \$458,070, \$399,953 and \$95,334 respectively) | 450,036                                   | 396,009                          | 92,989                                    |
| Federal Home Loan Bank stock, at cost   | 36,090                                    | 36,090                           | 41,090                                    |
| Residential loans held for sale, at fair value  | 4,009                                     | 17,530                           | 19,609                                    |
| Finance leases held for sale  | 52,225                                    | 55,260                           |   |
| Loans:  |   |                                  |   |
| Commercial  | 1,225,999                                 | 1,287,168                        | 1,809,431                                 |
| Commercial real estate  | 1,041,449                                 | 1,062,910                        | 1,133,851                                 |
| Residential real estate   | 403,007                                   | 403,391                          | 488,539                                   |
| Consumer credit, net of unearned income   | 1,044,488                                 | 1,082,017                        | 1,189,711                                 |
| Total loans   | 3,714,943                                 | 3,835,486                        | 4,621,532                                 |
| Allowance for loan losses   | (72,098)                                  | (69,548)                         | (71,775)                                  |
| Net loans   | 3,642,845                                 | 3,765,938                        | 4,549,757                                 |
| Premises and equipment, net   | 53,923                                    | 52,399                           | 58,586                                    |
| Accrued interest receivable   | 44,583                                    | 49,340                           | 48,248                                    |
| Goodwill  | 167,884                                   | 167,884                          | 167,791                                   |
| Other intangible assets   | 30,686                                    | 32,307                           | 37,813                                    |
| Company-owned life insurance  | 224,540                                   | 224,652                          | 223,816                                   |
| Other assets  | 211,243                                   | 224,431                          | 231,971                                   |
| Total assets  | \$ 7,818,250                              | \$ 8,005,335                     | \$ 8,356,068                              |
| <b>Liabilities</b>  |   |                                  |   |
| Deposits:   |   |                                  |   |
| Noninterest-bearing demand  | \$ 1,179,809                              | \$ 1,188,343                     | \$ 1,039,333                              |
| Interest-bearing:   |   |                                  |   |

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|  |                     |              |              |
|--|---------------------|--------------|--------------|
| NOW  | <b>1,232,450</b>    | 1,354,337    | 1,257,480    |
| Savings  | <b>1,045,233</b>    | 972,176      | 918,837      |
| Money market   | <b>381,903</b>      | 381,078      | 522,841      |
| Time (including \$0, \$0 and \$6,034, respectively, at fair value)   | <b>1,852,097</b>    | 2,007,554    | 2,116,247    |
| Total deposits   | <b>5,691,492</b>    | 5,903,488    | 5,854,738    |
| Short-term borrowings  | <b>357,983</b>      | 331,144      | 827,092      |
| Other borrowings   | <b>700,383</b>      | 699,059      | 809,958      |
| Accrued expenses and other liabilities   | <b>212,872</b>      | 227,818      | 232,488      |
| Total liabilities  | <b>6,962,730</b>    | 7,161,509    | 7,724,276    |
| <b>Shareholders Equity</b>   |                     |              |              |
| Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding  |                     |              |              |
| Preferred stock, series T, no par value, \$100,000 liquidation value, 1,000 shares authorized, no shares issued and or outstanding |                     |              |              |
| Common stock, \$1 stated value, 150,000 shares authorized, 87,161, 87,182 and 66,411 shares issued and outstanding, respectively   | <b>87,161</b>       | 87,182       | 66,411       |
| Capital surplus  | <b>746,932</b>      | 746,775      | 571,755      |
| Retained earnings  | <b>34,204</b>       | 30,235       | 41,079       |
| Accumulated other comprehensive loss, net of tax   | <b>(12,777)</b>     | (20,366)     | (47,453)     |
| Total shareholders equity  | <b>855,520</b>      | 843,826      | 631,792      |
| Total liabilities and shareholders equity  | <b>\$ 7,818,250</b> | \$ 8,005,335 | \$ 8,356,068 |

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

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

|   | <b>Three Months Ended</b> |               |
|---|---------------------------|---------------|
|   | <b>March 31,</b>          |               |
| (dollars in thousands, except per share data)   | <b>2010</b>               | <b>2009</b>   |
| <b>Interest Income</b>  |                           |               |
| Loans including fees:   |                           |               |
| Taxable   | \$ 44,907                 | \$ 51,694     |
| Nontaxable  | 2,180                     | 5,850         |
| Investment securities, available-for-sale:  |                           |               |
| Taxable   | 20,796                    | 23,481        |
| Nontaxable  | 4,856                     | 5,799         |
| Investment securities, held-to-maturity, taxable  | 4,417                     | 1,098         |
| Money market investments and federal funds sold   | 186                       | 61            |
| <b>Total interest income</b>  | <b>77,342</b>             | <b>87,983</b> |
| <b>Interest Expense</b>   |                           |               |
| Deposits  | 13,936                    | 17,790        |
| Short-term borrowings   | 249                       | 388           |
| Other borrowings  | 8,040                     | 10,607        |
| <b>Total interest expense</b>   | <b>22,225</b>             | <b>28,785</b> |
| Net interest income   | 55,117                    | 59,198        |
| Provision for loan losses   | 9,281                     | 17,300        |
| <b>Net interest income after provision for loan losses</b>  | <b>45,836</b>             | <b>41,898</b> |
| <b>Noninterest Income</b>   |                           |               |
| Wealth management fees  | 4,287                     | 3,827         |
| Service charges on deposit accounts   | 11,946                    | 10,689        |
| ATM fees  | 5,527                     | 4,140         |
| Mortgage banking revenue  | 489                       | 1,728         |
| Insurance premiums and commissions  | 10,205                    | 11,410        |
| Investment product fees   | 2,053                     | 2,239         |
| Company-owned life insurance  | 845                       | 696           |
| Net securities gains  | 3,503                     | 5,577         |
| Impairment on available-for-sale securities (includes losses of \$578 and \$15,288, net of \$73 and \$12,897 recognized in other comprehensive income, pre-tax, for the three months ended March 31, 2010 and 2009, respectively) | (505)                     | (2,391)       |
| Gain on derivatives   | 621                       | 483           |
| Gain on sale leaseback transactions   | 1,637                     | 1,589         |
| Other income  | 2,384                     | 2,248         |
| <b>Total noninterest income</b>   | <b>42,992</b>             | <b>42,235</b> |
| <b>Noninterest Expense</b>  |                           |               |

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|   |                  |          |
|---|------------------|----------|
| Salaries and employee benefits                                      | <b>42,444</b>    | 42,699   |
| Occupancy   | <b>12,240</b>    | 10,592   |
| Equipment   | <b>2,796</b>     | 2,314    |
| Marketing   | <b>1,362</b>     | 1,996    |
| Data processing   | <b>5,515</b>     | 4,891    |
| Communication   | <b>2,687</b>     | 2,551    |
| Professional fees   | <b>1,701</b>     | 2,642    |
| Loan expense  | <b>908</b>       | 875      |
| Supplies  | <b>780</b>       | 1,322    |
| Loss on extinguishment of debt                                      | <b>22</b>        | 405      |
| FDIC assessment   | <b>2,447</b>     | 2,084    |
| Amortization of intangibles   | <b>1,622</b>     | 1,002    |
| Other expense   | <b>2,536</b>     | 4,091    |
| <b>Total noninterest expense</b>                                    | <b>77,060</b>    | 77,464   |
| <b>Income before income taxes</b>                                   | <b>11,768</b>    | 6,669    |
| <b>Income tax expense (benefit)</b>                                 | <b>1,699</b>     | (2,736)  |
| <b>Net income</b>   | <b>10,069</b>    | 9,405    |
| Preferred stock dividends and discount accretion                    |                  | (3,892)  |
| <b>Net income available to common stockholders</b>                  | <b>\$ 10,069</b> | \$ 5,513 |
| <b>Net income per common share basic</b>                            | <b>\$ 0.12</b>   | \$ 0.08  |
| <b>Net income per common share diluted</b>                          | <b>0.12</b>      | 0.08     |
| <b>Weighted average number of common shares outstanding basic</b>   | <b>86,752</b>    | 65,793   |
| <b>Weighted average number of common shares outstanding diluted</b> | <b>86,797</b>    | 65,882   |
| <b>Dividends per common share</b>                                   | <b>\$ 0.07</b>   | \$ 0.23  |

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



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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)**

|  | Preferred | Common    | Capital    | Retained  | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Shareholder<br>Equity | Comprehensive<br>Income |
|--|-----------|-----------|------------|-----------|---|--------------------------------|-------------------------|
| (dollars and shares in thousands)  | Stock     | Stock     | Surplus    | Earnings  | (Loss)  | Equity                         | Income                  |
| <b>Balance, December 31, 2008</b>  | \$ 97,358 | \$ 66,321 | \$ 569,875 | \$ 50,815 | \$ (53,504)                                     | \$ 730,865                     |                         |
| Comprehensive income   |           |           |            |           |   |                                |                         |
| Net income   |           |           |            | 9,405     |   | 9,405                          | \$ 9,405                |
| Other comprehensive income (1)   |           |           |            |           |   |                                |                         |
| Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax         |           |           |            |           | 4,913   | 4,913                          | 4,913                   |
| Reclassification adjustment on cash flows hedges, net of tax   |           |           |            |           | 709   | 709                            | 709                     |
| Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax |           |           |            |           | 429   | 429                            | 429                     |
| Total comprehensive income   |           |           |            |           |   |                                | \$ 15,456               |
| Dividends common stock   |           |           |            | (15,227)  |   | (15,227)                       |                         |
| Dividends preferred stock  |           |           |            | (1,250)   |   | (1,250)                        |                         |
| Common stock issued  |           | 151       | 1,357      |           |   | 1,508                          |                         |
| Preferred stock repurchased  | (97,358)  |           |            | (2,642)   |   | (100,000)                      |                         |
| Common stock repurchased   |           | (27)      | (320)      |           |   | (347)                          |                         |
| Stock based compensation expense   |           |           | 739        |           |   | 739                            |                         |
| Stock activity under incentive comp plans  |           | (34)      | 104        | (22)      |   | 48                             |                         |
| <b>Balance, March 31, 2009</b>   | \$        | \$ 66,411 | \$ 571,755 | \$ 41,079 | \$ (47,453)                                     | \$ 631,792                     |                         |
| <b>Balance, December 31, 2009</b>  | \$        | \$ 87,182 | \$ 746,775 | \$ 30,235 | \$ (20,366)                                     | \$ 843,826                     |                         |
| Comprehensive income   |           |           |            |           |   |                                |                         |
| Net income   |           |           |            | 10,069    |   | 10,069                         | \$ 10,069               |
| Other comprehensive income (1)   |           |           |            |           |   |                                |                         |
| Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax         |           |           |            |           | 7,036   | 7,036                          | 7,036                   |
| Transferred securities, net of tax   |           |           |            |           | (110)   | (110)                          | (110)                   |
| Reclassification adjustment on cash flows hedges, net of tax   |           |           |            |           | 423   | 423                            | 423                     |
| Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net        |           |           |            |           | 240   | 240                            | 240                     |

of tax

|   |      |           |            |           |             |            |
|---|------|-----------|------------|-----------|-------------|------------|
| Total comprehensive income                |      |           |            |           |             | \$ 17,658  |
| Dividends common stock                    |      |           | (6,082)    |           |             | (6,082)    |
| Common stock repurchased                  | (41) | (438)     |            |           |             | (479)      |
| Stock based compensation expense          |      | 576       |            |           |             | 576        |
| Stock activity under incentive comp plans | 20   | 19        | (18)       |           |             | 21         |
| <b>Balance, March 31, 2010</b>            | \$   | \$ 87,161 | \$ 746,932 | \$ 34,204 | \$ (12,777) | \$ 855,520 |

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

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

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

| (dollars in thousands)  | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2010</b>                             | <b>2009</b> |
| <b>Cash Flows From Operating Activities</b>   |   |             |
| Net income  | \$ 10,069                               | \$ 9,405    |
| Adjustments to reconcile net income to cash provided by operating activities:               |   |             |
| Depreciation  | 2,615                                   | 1,536       |
| Amortization and impairment of other intangible assets                                      | 1,621                                   | 1,002       |
| Net premium (discount) amortization on investment securities                                | 1,056                                   | (620)       |
| Restricted stock expense  | 513                                     | 646         |
| Stock option expense  | 63                                      | 93          |
| Provision for loan losses   | 9,281                                   | 17,300      |
| Net securities gains  | (3,503)                                 | (5,577)     |
| Impairment on available-for-sale securities   | 505                                     | 2,391       |
| Gain on sale leasebacks   | (1,637)                                 | (1,589)     |
| Gain on derivatives   | (621)                                   | (483)       |
| Net gains on sales and write-downs of loans and other assets                                | (551)                                   | (127)       |
| Loss on extinguishment of debt  | 22                                      | 405         |
| (Increase) decrease in cash surrender value of company owned life insurance                 | 112                                     | (690)       |
| Residential real estate loans originated for sale   | (18,898)                                | (57,880)    |
| Proceeds from sale of residential real estate loans   | 33,004                                  | 56,129      |
| Decrease in interest receivable   | 4,757                                   | 814         |
| Decrease in other assets  | 10,575                                  | 3,398       |
| Decrease in accrued expenses and other liabilities  | (12,907)                                | (1,378)     |
| Total adjustments   | 26,007                                  | 15,370      |
| Net cash flows provided by operating activities   | 36,076                                  | 24,775      |
| <b>Cash Flows From Investing Activities</b>   |   |             |
| Cash and cash equivalents of acquired banking branches, net                                 |   | 353,694     |
| Purchases of investment securities available-for-sale                                       | (216,540)                               | (836,865)   |
| Purchases of investment securities held-to-maturity   | (65,141)                                |             |
| Proceeds from maturities, prepayments and calls of investment securities available-for-sale | 162,858                                 | 184,695     |
| Proceeds from sales of investment securities available-for-sale                             | 34,891                                  | 78,343      |
| Proceeds from maturities, prepayments and calls of investment securities held-to-maturity   | 9,821                                   | 6,540       |
| Proceeds from sale of loans   | 2,753                                   |             |
| Net principal collected from customers  | 114,094                                 | 131,814     |
| Proceeds from sale of premises and equipment and other assets                               | 12                                      | 9           |
| Purchases of premises and equipment   | (4,143)                                 | (4,772)     |
| Net cash flows provided by (used in) investing activities                                   | 38,605                                  | (86,542)    |

**Cash Flows From Financing Activities**

|  |                   |            |
|--|-------------------|------------|
| Net increase (decrease) in deposits and short-term borrowings: |                   |            |
| Noninterest-bearing demand deposits                            | <b>(8,534)</b>    | 71,060     |
| Savings, NOW and money market deposits                         | <b>(48,005)</b>   | (69,822)   |
| Time deposits  | <b>(155,457)</b>  | 5,272      |
| Short-term borrowings  | <b>26,839</b>     | 177,469    |
| Payments for maturities on other borrowings                    | <b>(91)</b>       | (85)       |
| Payments related to retirement of debt                         |                   | (25,464)   |
| Cash dividends paid on common stock                            | <b>(6,082)</b>    | (15,227)   |
| Cash dividends paid on preferred stock                         |                   | (1,514)    |
| Common stock repurchased                                       | <b>(479)</b>      | (347)      |
| Proceeds from exercise of stock options, including tax benefit | <b>12</b>         |            |
| Repurchase of TARP preferred stock and warrants                |                   | (100,000)  |
| Common stock issued  |                   | 1,508      |
| <br>   |                   |            |
| Net cash flows provided by (used in) financing activities      | <b>(191,797)</b>  | 42,850     |
| <br>   |                   |            |
| Net increase (decrease) in cash and cash equivalents           | <b>(117,116)</b>  | (18,917)   |
| Cash and cash equivalents at beginning of period               | <b>497,276</b>    | 193,012    |
| <br>   |                   |            |
| <b>Cash and cash equivalents at end of period</b>              | <b>\$ 380,160</b> | \$ 174,095 |

## Supplemental cash flow information:

|                                   |                   |           |
|-----------------------------------|-------------------|-----------|
| Total interest paid               | <b>\$ 20,738</b>  | \$ 26,370 |
| Total taxes paid (net of refunds) | <b>\$ (5,125)</b> | \$ 2      |

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

**Table of Contents****OLD NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****NOTE 1 BASIS OF PRESENTATION**

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

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

**NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

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

At March 31, 2010, Old National had loan participations, which qualified as participating interests, with other financial institutions. The loans involved totaled \$60.0 million, of which \$29.8 million had been sold to other financial institutions and \$30.2 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder, involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder, all cash flows are divided among the participating interest holders in proportion to each holder's share of ownership and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

**FASB ASC 810-10** In June 2009, the FASB issued new guidance impacting FASB ASC 810-10, Consolidation (Statement No. 167 *Amendments to FASB Interpretation No. 46(R)*). The new guidance amends tests for variable interest entities to determine whether a variable interest entity must be consolidated. FASB ASC 810-10 requires an entity to perform an analysis to determine whether an entity's variable interest or interests give it a controlling financial interest in a variable interest entity. This standard requires ongoing reassessments of whether an entity is the primary beneficiary of a variable interest entity and enhanced disclosures that provide more transparent information about an entity's involvement with a variable interest entity. The new guidance became effective for the Company on January 1, 2010 and did not have a material impact on the Company's consolidated financial position or results of operations.

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**FASB ASC 820-10** In January 2010, the FASB issued an update (ASU No. 2010-06, Improving Disclosures about Fair Value Measurements) impacting FASB ASC 820-10, Fair Value Measurements and Disclosures. The amendments in this update require new disclosures about significant transfers in and out of Level 1 and Level 2 fair value measurements. The amendments also require a reporting entity to provide information about activity for purchases, sales, issuances and settlements in Level 3 fair value measurements and clarify disclosures about the level of disaggregation and disclosures about inputs and valuation techniques. This update became effective for the Company for interim and annual reporting periods beginning after December 15, 2009 and did not have a material impact on the Company's consolidated financial position or results of operations.

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

**NOTE 3 ACQUISITION**

On March 20, 2009, Old National completed its acquisition of the Indiana retail branch banking network of Citizens Financial Group, which consisted of 65 branches and a training facility. The branches are located primarily in the Indianapolis area, with additional locations in the Lafayette, Fort Wayne, Anderson and Bloomington, Indiana markets. Pursuant to the terms of the purchase agreement, Old National paid Citizens Financial Group approximately \$17.2 million. In accordance with FASB ASC 805 (SFAS No. 141(R) - *Business Combinations*), Old National has expensed approximately \$5.1 million of costs related to the business combination and recorded goodwill of \$8.7 million and \$11.2 million of intangible assets. The intangible assets are related to core deposits and are being amortized on an accelerated basis over 7 years. See Note 9 to the consolidated financial statements for additional information. On the date of acquisition, Old National assumed deposit liabilities valued at approximately \$427 million and acquired a portfolio of loans valued at approximately \$5.6 million.

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

The following table reconciles basic and diluted net income per share for the three months ended March 31:

| (dollars and shares in thousands, except per share data)  | <b>Three Months<br/>Ended<br/>March 31, 2010</b> | <b>Three Months<br/>Ended<br/>March 31, 2009</b> |
|---|--|--|
| <b>Basic Earnings Per Share</b>                           |  |  |
| Net income  | \$ 10,069  | \$ 9,405   |
| Less: Preferred stock dividends and accretion of discount |  | 3,892  |
| Net income available to common stockholders               | <b>10,069</b>                                    | 5,513  |
| Weighted average common shares outstanding                | <b>86,752</b>                                    | 65,793   |
| <b>Basic Earnings Per Share</b>                           | <b>\$ 0.12</b>                                   | <b>\$ 0.08</b>                                   |
| <br><b>Diluted Earnings Per Share</b>                     |  |  |
| Net income available to common stockholders               | <b>10,069</b>                                    | 5,513  |
| Weighted average common shares outstanding                | <b>86,752</b>                                    | 65,793   |
| Effect of dilutive securities:                            |  |  |
| Restricted stock (1)                                      | <b>38</b>  | 78   |
| Stock options (2)   | <b>7</b>   | 11   |
| Warrants (3)  |  |  |
| Weighted average shares outstanding                       | <b>86,797</b>                                    | 65,882   |
| <b>Diluted Earnings Per Share</b>                         | <b>\$ 0.12</b>                                   | <b>\$ 0.08</b>                                   |

(1) 315 and 302 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share at March 31, 2010 and 2009, respectively, because the effect would be antidilutive.

(2) Options to purchase 6,018 shares and 6,054 shares

outstanding at March 31, 2010 and 2009, respectively, were not included in the computation of net income per diluted share because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

- (3) Warrants to purchase 813 shares at March 31, 2009, were not included in the computation because the effect would be antidilutive.



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

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and unrealized gains and losses on cash flow hedges and changes in funded status of pension plans which are also recognized as separate components of equity. Following is a summary of other comprehensive income for the three months ended March 31, 2010 and 2009:

| (dollars in thousands)   | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2010</b>                             | <b>2009</b> |
| Net income   | \$ <b>10,069</b>                        | \$ 9,405    |
| Other comprehensive income (loss)  |   |             |
| Change in securities available for sale:   |   |             |
| Unrealized holding gains (losses) arising during the period  | <b>15,048</b>                           | 23,693      |
| Reclassification adjustment for securities (gains) losses realized in income   | <b>(3,503)</b>                          | (5,577)     |
| Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income         | <b>(73)</b>                             | (12,897)    |
| Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income | <b>505</b>                              | 2,391       |
| Income tax effect  | <b>(4,941)</b>                          | (2,697)     |
| Change in securities held-to-maturity:   |   |             |
| Amortization of fair value previously recognized into accumulated other comprehensive income                         | <b>(184)</b>                            |             |
| Income tax effect  | <b>74</b>                               |             |
| Cash flow hedges:  |   |             |
| Net unrealized derivative gains (losses) on cash flow hedges   | <b>632</b>                              | 1,109       |
| Reclassification adjustment on cash flow hedges  | <b>72</b>                               | 72          |
| Income tax effect  | <b>(281)</b>                            | (472)       |
| Defined benefit pension plans:   |   |             |
| Amortization of net (gain) loss recognized in income   | <b>401</b>                              | 714         |
| Income tax effect  | <b>(161)</b>                            | (285)       |
| Total other comprehensive income (loss)  | <b>7,589</b>                            | 6,051       |
| Comprehensive income (loss)  | \$ <b>17,658</b>                        | \$ 15,456   |

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The following table summarizes the changes within each classification of accumulated other comprehensive income for the three months ended March 31, 2010 and 2009:

| (dollars in thousands)   | AOCI at<br>December<br>31,<br>2009 | Other<br>Comprehensive<br>Income | AOCI at<br>March 31,<br>2010 |
|--|------------------------------------|----------------------------------|------------------------------|
| Unrealized gains (losses) on available-for-sale securities                                       | \$ 19,789                          | \$ 7,079                         | \$ 26,868                    |
| Unrealized losses on securities for which<br>other-than-temporary-impairment has been recognized | (27,501)                           | (43)                             | (27,544)                     |
| Unrealized gains (losses) on held-to-maturity securities   | 812                                | (110)                            | 702                          |
| Unrecognized gain (loss) on cash flow hedges   | 187                                | 423                              | 610                          |
| Defined benefit pension plans  | (13,653)                           | 240                              | (13,413)                     |
| Accumulated other comprehensive income (AOCI)  | \$ (20,366)                        | \$ 7,589                         | \$ (12,777)                  |

| (dollars in thousands)   | AOCI at<br>December<br>31,<br>2008 | Other<br>Comprehensive<br>Income | AOCI at<br>March 31,<br>2009 |
|--|------------------------------------|----------------------------------|------------------------------|
| Unrealized gains (losses) on available-for-sale securities                                       | \$ (40,504)                        | \$ 13,105                        | \$ (27,399)                  |
| Unrealized losses on securities for which<br>other-than-temporary-impairment has been recognized |                                    | (8,192)                          | (8,192)                      |
| Unrealized gains (losses) on held-to-maturity securities   |                                    |                                  |                              |
| Unrecognized gain (loss) on cash flow hedges   | (480)                              | 709                              | 229                          |
| Defined benefit pension plans  | (12,520)                           | 429                              | (12,091)                     |
| Accumulated other comprehensive income (AOCI)  | \$ (53,504)                        | \$ 6,051                         | \$ (47,453)                  |

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

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

| (dollars in thousands)                          | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|---------------------|----------------------|---------------|
| <b>March 31, 2010</b>                           |                   |                     |                      |               |
| <b>Available-for-sale</b>                       |                   |                     |                      |               |
| U.S. Treasury                                   | \$ 51,364         | \$ 1                | \$ (147)             | \$ 51,218     |
| U.S. Government-sponsored entities and agencies | 854,001           | 5,414               | (1,449)              | 857,966       |
| Mortgage-backed securities Agency               | 706,205           | 20,233              | (412)                | 726,026       |
| Mortgage-backed securities Non-agency           | 206,158           | 731                 | (41,442)             | 165,447       |
| States and political subdivisions               | 531,146           | 28,946              | (373)                | 559,719       |
| Pooled trust preferred securities               | 28,493            |                     | (16,764)             | 11,729        |
| Other securities                                | 143,679           | 6,598               | (2,356)              | 147,921       |
| Total available-for-sale securities             | \$ 2,521,046      | \$ 61,923           | \$ (62,943)          | \$ 2,520,026  |
| <b>Held-to-maturity</b>                         |                   |                     |                      |               |
| U.S. Government-sponsored entities and agencies | \$ 291,373        | \$ 4,508            | \$ (70)              | \$ 295,811    |
| Mortgage-backed securities Agency               | 156,618           | 3,967               |                      | 160,585       |
| Other securities                                | 2,045             |                     | (371)                | 1,674         |
| Total held-to-maturity securities               | \$ 450,036        | \$ 8,475            | \$ (441)             | \$ 458,070    |
| <b>December 31, 2009</b>                        |                   |                     |                      |               |
| <b>Available-for-sale</b>                       |                   |                     |                      |               |
| U.S. Treasury                                   | \$ 1,002          | \$ 1                | \$                   | \$ 1,003      |
| U.S. Government-sponsored entities and agencies | 918,366           | 3,260               | (7,389)              | 914,237       |
| Mortgage-backed securities Agency               | 688,439           | 19,783              | (93)                 | 708,129       |
| Mortgage-backed securities Non-agency           | 216,215           | 933                 | (42,551)             | 174,597       |
| States and political subdivisions               | 508,496           | 27,159              | (1,060)              | 534,595       |
| Pooled trust preferred securities               | 28,498            |                     | (16,100)             | 12,398        |
| Other securities                                | 138,200           | 6,098               | (3,038)              | 141,260       |
| Total available-for-sale securities             | \$ 2,499,216      | \$ 57,234           | \$ (70,231)          | \$ 2,486,219  |
| <b>Held-to-maturity</b>                         |                   |                     |                      |               |
| U.S. Government-sponsored entities and agencies | \$ 227,461        | \$ 2,029            | \$ (1,613)           | \$ 227,877    |
| Mortgage-backed securities Agency               | 165,639           | 3,934               |                      | 169,573       |
| Other securities                                | 2,909             |                     | (406)                | 2,503         |
| Total held-to-maturity securities               | \$ 396,009        | \$ 5,963            | \$ (2,019)           | \$ 399,953    |

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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)    | <b>March 31, 2010</b> |              | <b>Weighted</b> |
|---------------------------|-----------------------|--------------|-----------------|
| <b>Maturity</b>           | <b>Amortized</b>      | <b>Fair</b>  | <b>Average</b>  |
|                           | <b>Cost</b>           | <b>Value</b> | <b>Yield</b>    |
| <b>Available-for-sale</b> |                       |              |                 |
| Within one year           | \$ 121,924            | \$ 123,552   | 3.49%           |
| One to five years         | 1,066,450             | 1,077,051    | 3.52            |
| Five to ten years         | 474,112               | 454,701      | 4.92            |
| Beyond ten years          | 858,560               | 864,722      | 5.18            |
| Total                     | \$ 2,521,046          | \$ 2,520,026 | 4.34%           |
| <b>Held-to-maturity</b>   |                       |              |                 |
| Within one year           | \$ 268                | \$ 191       | 4.69%           |
| One to five years         | 158,395               | 162,067      | 3.63            |
| Beyond ten years          | 291,373               | 295,812      | 4.00            |
| Total                     | \$ 450,036            | \$ 458,070   | 3.87%           |

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

| (dollars in thousands)                          | Less than 12 months |                   | 12 months or longer |                   | Total      |                   |
|---|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| <b>March 31, 2010</b>                           |                     |                   |                     |                   |            |                   |
| <b>Available-for-Sale</b>                       |                     |                   |                     |                   |            |                   |
| U.S. Treasury                                   | \$ 50,215           | \$ (147)          | \$                  | \$                | \$ 50,215  | \$ (147)          |
| U.S. Government-sponsored entities and agencies | 78,643              | (832)             | 51,686              | (617)             | 130,329    | (1,449)           |
| Mortgage-backed securities Agency               | 104,047             | (412)             | 33                  |                   | 104,080    | (412)             |
| Mortgage-backed securities Non-agency           | 979                 | (7)               | 142,070             | (41,435)          | 143,049    | (41,442)          |
| States and political subdivisions               | 33,571              | (321)             | 6,920               | (52)              | 40,491     | (373)             |
| Pooled trust preferred securities               |                     |                   | 11,729              | (16,764)          | 11,729     | (16,764)          |
| Other securities                                | 57,890              | (71)              | 9,610               | (2,285)           | 67,500     | (2,356)           |
| Total available-for-sale                        | \$ 325,345          | \$ (1,790)        | \$ 222,048          | \$ (61,153)       | \$ 547,393 | \$ (62,943)       |
| <b>Held-to-Maturity</b>                         |                     |                   |                     |                   |            |                   |
| U.S. Government-sponsored entities and agencies | \$ 22,201           | \$ (70)           | \$                  | \$                | \$ 22,201  | \$ (70)           |
| Other securities                                | 191                 | (76)              | 1,483               | (295)             | 1,674      | (371)             |
| Total held-to-maturity                          | \$ 22,392           | \$ (146)          | \$ 1,483            | \$ (295)          | \$ 23,875  | \$ (441)          |
| <b>December 31, 2009</b>                        |                     |                   |                     |                   |            |                   |
| <b>Available-for-Sale</b>                       |                     |                   |                     |                   |            |                   |
| U.S. Government-sponsored entities and agencies | \$ 261,186          | \$ (7,389)        | \$                  | \$                | \$ 261,186 | \$ (7,389)        |
| Mortgage-backed securities Agency               | 18,488              | (93)              | 37                  |                   | 18,525     | (93)              |
| Mortgage-backed securities Non-agency           | 1,141               | (8)               | 140,622             | (42,543)          | 141,763    | (42,551)          |
| States and political subdivisions               | 75,918              | (871)             | 6,783               | (189)             | 82,701     | (1,060)           |
| Pooled trust preferred securities               |                     |                   | 12,398              | (16,100)          | 12,398     | (16,100)          |
| Other securities                                | 4,445               | (40)              | 8,891               | (2,998)           | 13,336     | (3,038)           |
| Total available-for-sale                        | \$ 361,178          | \$ (8,401)        | \$ 168,731          | \$ (61,830)       | \$ 529,909 | \$ (70,231)       |
| <b>Held-to-Maturity</b>                         |                     |                   |                     |                   |            |                   |
| U.S. Government-sponsored entities and agencies | \$ 93,467           | \$ (1,613)        | \$                  | \$                | \$ 93,467  | \$ (1,613)        |
| Other securities                                |                     |                   | 2,502               | (406)             | 2,502      | (406)             |
| Total held-to-maturity                          | \$ 93,467           | \$ (1,613)        | \$ 2,502            | \$ (406)          | \$ 95,969  | \$ (2,019)        |

Proceeds from sales and calls of securities available for sale were \$128.0 million and \$191.7 million for the three months ended March 31, 2010 and 2009, respectively. Gains of \$3.5 million and \$6.5 million were realized on these sales during 2010 and 2009, respectively, and losses of \$0.9 million were realized on these sales during 2009. Also impacting earnings in the first quarter of 2010 are other-than-temporary impairment charges related to credit loss on six non-agency mortgage-backed securities in the amount of \$0.5 million, described below. Impacting earnings in the first quarter of 2009 were other-than-temporary impairment charges related to credit loss on three pooled trust preferred securities in the amount of \$2.4 million.

During the second quarter of 2009, approximately \$230.1 million of U.S. government-sponsored entity and agency securities were transferred from the available-for-sale portfolio to the held-to-maturity portfolio at fair value. The \$1.8 million unrealized holding gain at the date of transfer shall continue to be reported as a separate component of shareholders' equity and will be amortized over the remaining life of the securities as an adjustment of yield.

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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 March 31, 2010, Old National's security portfolio consisted of 1,056 securities, 90 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's non-agency mortgage-backed and pooled trust preferred securities, as discussed below:

**Non-agency Mortgage-backed Securities**

At March 31, 2010, the Company's securities portfolio contained non-agency collateralized mortgage obligations with a market value of \$165.4 million which had net unrealized losses of approximately \$40.7 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 March 31, 2010, ten of these securities were rated below investment grade with grades ranging from B to CC. One of the ten securities is rated B and has a market value of \$11.6 million, six of the securities are rated CCC with a market value of \$50.0 million and three of the securities are rated CC with a market value of \$31.8 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 and a higher default-curve and severity percentages were applied to loans originated in the high-risk states. Different default curves and severity rates were applied to the remaining non-current collateral buckets. Using these collateral-specific assumptions, a model was built to project the future performance of the instrument. Based on this analysis of the underlying collateral, Old National recorded \$0.5 million of other-than-temporary impairment on six of these securities for the three months ended March 31, 2010. The market value of these non-agency mortgage-backed securities was \$40.1 million at March 31, 2010.



**Table of Contents****Pooled Trust Preferred Securities**

Seven of the pooled trust preferred securities in our portfolio fall within the scope of FASB ASC 325-10 (EITF 99-20) and include \$14.4 million amortized cost. These securities were rated A2 and A3 at inception, but at March 31, 2010, Moody's rated one security Baa2, one security Caa3 and five securities Ca. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities.

Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National's note class. For the three months ended March 31, 2010, our model indicated no other-than-temporary-impairment losses on these securities. Together, the seven securities subject to FASB ASC 325-10 accounted for \$8.9 million of the unrealized loss in the pooled trust preferred securities category at March 31, 2010. Two of our pooled trust preferred securities are not subject to FASB ASC 325-10. These securities, with unrealized losses of \$7.7 million at March 31, 2010, 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.

For the three months ended March 31, 2009, our model indicated other-than-temporary-impairment losses on three pooled trust preferred securities of \$15.3 million, of which \$2.4 million was recorded as expense and \$12.9 million was recorded in other comprehensive income. Together, the seven securities subject to FASB ASC 325-10 accounted for \$27.2 million of the unrealized loss in the pooled trust preferred securities category at March 31, 2009.

The following table details all securities with other-than-temporary-impairment, their credit rating at March 31, 2010 and the related credit losses recognized in earnings:

|  | Vintage | Moody's<br>Rating (1) | Book<br>Value | Amount of<br>other-than-<br>temporary-impairment<br>recognized in<br>earnings<br>for the three months<br>ended March 31,<br>2010 |
|--|---------|-----------------------|---------------|--|
| Non-agency mortgage-backed securities:                           |         |                       |               |  |
| CWALT Ser 73CB   | 2005    | B3                    | \$ 7,280      | \$ 57  |
| CWALT Ser 73CB   | 2005    | B3                    | 9,183         | 103  |
| CWHL 2006-10   | 2006    | CC                    | 10,135        | 204  |
| CWHL 2005-20   | 2005    | B-                    | 12,377        | 32   |
| RALI QS2   | 2006    | Caa1                  | 7,469         | 79   |
| RFMSI S1   | 2006    | B1                    | 6,421         | 30   |
|  |         |                       | \$ 52,865     | 505  |
| Total other-than-temporary- impairment<br>recognized in earnings |         |                       |               | \$ 505   |

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

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The following table details all securities with other-than-temporary-impairment, their credit rating at March 31, 2009 and the related credit losses recognized in earnings:

|  | Vintage | Moody's<br>Rating (1) | Book<br>Value | Amount of<br>other-than-<br>temporary-impairment<br>recognized in<br>earnings<br>for the three months<br>ended March 31,<br>2009 |
|--|---------|-----------------------|---------------|--|
| Pooled trust preferred securities:                               |         |                       |               |  |
| TROPC  | 2003    | Caa3                  | \$ 4,996      | \$ 828   |
| MM Community Funding IX  | 2003    | Caa3                  | 4,938         | 282  |
| Reg Div Funding  | 2004    | Ca                    | 9,828         | 1,281  |
|  |         |                       | \$ 19,762     | 2,391  |
| Total other-than-temporary- impairment<br>recognized in earnings |         |                       |               | \$ 2,391   |

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

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

|   |           |
|---|-----------|
| Beginning balance, January 1, 2010  | \$ 24,795 |
| Increase to the amount related to the credit loss for which other-than-temporary-impairment was previously recognized | 505       |
| Ending balance, March 31, 2010  | \$ 25,300 |

**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 March 31, 2010 and December 31, 2009, Old National had residential loans held for sale of \$4.0 million and \$17.5 million, respectively. The majority of new production during the first quarter of 2010 was retained in Old National's loan portfolio, resulting in lower residential loans held for sale.

In June 2009, Old National transferred \$370.2 million of leases to held for sale status. During the third quarter, \$258.0 million of these leases were sold at a price above par; however the transaction resulted in a loss of \$1.4 million after transaction fees. Approximately \$46.0 million of the remaining leases were transferred from held for sale back to the loan portfolio at the lower of cost or market in the third quarter of 2009 and approximately \$0.5 million of the remaining leases were transferred from held for sale back to the loan portfolio at the lower of cost or market in the first quarter of 2010. Approximately \$52.2 million of finance leases remained available for sale at March 31, 2010. The leases held for sale have maturities ranging from 1.3 years to 17 years and interest rates ranging from 3.76% to 9.73%. All of the leases held for sale are to municipalities, with various types of equipment securing the leases, and all of the leases are current.

During the first three months of 2010, commercial and commercial real estate loans held for investment of \$2.3 million were reclassified to loans held for sale at the lower of cost or fair value and sold for \$2.7 million, resulting in a recovery of \$0.4 million on the loans transferred. At March 31, 2009, there were no loans held for sale under this arrangement.

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

Activity in the allowance for loan losses was as follows:

| (dollars in thousands)       | <b>Three Months Ended<br/>March 31,</b> |             |
|------------------------------|---|-------------|
|                              | <b>2010</b>                             | <b>2009</b> |
| Balance, January 1           | \$ <b>69,548</b>                        | \$ 67,087   |
| Additions:                   |   |             |
| Provision charged to expense | <b>9,281</b>                            | 17,300      |
| Deductions:                  |   |             |
| Loans charged-off            | <b>10,912</b>                           | 15,900      |
| Recoveries                   | <b>(4,181)</b>                          | (3,288)     |
| Net charge-offs              | <b>6,731</b>                            | 12,612      |
| Balance, March 31            | \$ <b>72,098</b>                        | \$ 71,775   |

Individually impaired loans were as follows:

| (dollars in thousands)   | <b>March 31,</b> | <b>December 31,</b> |
|--|------------------|---------------------|
|  | <b>2010</b>      | <b>2009</b>         |
| Impaired loans without an allowance for loan losses allocation | \$ <b>14,725</b> | \$ 12,659           |
| Impaired loans with an allowance for loan losses allocation    | <b>35,450</b>    | 36,452              |
| Total impaired loans   | \$ <b>50,175</b> | \$ 49,111           |
| Allowance for loan losses allocated to impaired loans          | \$ <b>14,560</b> | \$ 14,503           |

For the three months ended March 31, 2010 and 2009, the average balance of impaired loans was \$49.6 million and \$59.1 million, respectively, for which no interest income was recorded. Generally, no additional funds are committed to be advanced in connection with impaired loans, including troubled debt restructurings. Loans deemed impaired are evaluated using the fair value of the underlying collateral.

Nonperforming loans were as follows:

| (dollars in thousands)                              | <b>March 31,</b> | <b>December 31,</b> |
|---|------------------|---------------------|
|   | <b>2010</b>      | <b>2009</b>         |
| Nonaccrual loans                                    | \$ <b>68,144</b> | \$ 67,016           |
| Renegotiated loans not on nonaccrual                |                  |                     |
| Total nonperforming loans                           | \$ <b>68,144</b> | \$ 67,016           |
| Past due loans (90 days or more and still accruing) | \$ <b>1,314</b>  | \$ 3,501            |

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

From time to time, Old National may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. Loans modified in a troubled debt restructuring are placed on nonaccrual status until the

Company determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. At March 31, 2010, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled \$6.8 million and had specific allocations of allowance for loan losses of \$3.1 million. At December 31, 2009, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled \$10.0 million and had specific allocations of allowance for loan losses of \$3.5 million.

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

The following table shows the changes in the carrying amount of goodwill by segment for the three months ended March 31, 2010 and 2009:

| (dollars in thousands)              | <b>Community<br/>Banking</b> | <b>Other</b> | <b>Total</b> |
|-------------------------------------|------------------------------|--------------|--------------|
| Balance, January 1, 2010            | \$ 128,011                   | \$ 39,873    | \$ 167,884   |
| Goodwill acquired during the period |                              |              |              |
| Balance, March 31, 2010             | \$ 128,011                   | \$ 39,873    | \$ 167,884   |
| Balance, January 1, 2009            | \$ 119,325                   | \$ 39,873    | \$ 159,198   |
| Goodwill acquired during the period | 8,593                        |              | 8,593        |
| Balance, March 31, 2009             | \$ 127,918                   | \$ 39,873    | \$ 167,791   |

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2009 and determined that no impairment existed as of this date. Old National recorded \$8.6 million of goodwill during the first quarter of 2009 associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group.

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

| (dollars in thousands)          | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization<br/>and<br/>Impairment</b> | <b>Net<br/>Carrying<br/>Amount</b> |
|---------------------------------|--------------------------------------|--|------------------------------------|
| <b>March 31, 2010</b>           |                                      |  |                                    |
| Amortized intangible assets:    |                                      |  |                                    |
| Core deposit                    | \$ 26,810                            | \$ (11,835)  | \$ 14,975                          |
| Customer business relationships | 25,753                               | (13,185)   | 12,568                             |
| Customer loan relationships     | 4,413                                | (1,270)  | 3,143                              |
| Total intangible assets         | \$ 56,976                            | \$ (26,290)  | \$ 30,686                          |
| <b>December 31, 2009</b>        |                                      |  |                                    |
| Amortized intangible assets:    |                                      |  |                                    |
| Core deposit                    | \$ 26,810                            | \$ (10,794)  | \$ 16,016                          |
| Customer business relationships | 25,753                               | (12,705)   | 13,048                             |
| Customer loan relationships     | 4,413                                | (1,170)  | 3,243                              |
| Total intangible assets         | \$ 56,976                            | \$ (24,669)  | \$ 32,307                          |

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

segment. Total amortization expense associated with other intangible assets for the three months ended March 31 was \$1.6 million in 2010 and \$1.0 million in 2009.



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Estimated amortization expense for future years is as follows:

|                        |               |
|------------------------|---------------|
| (dollars in thousands) |               |
| 2010 remaining         | \$ 4,509      |
| 2011                   | 5,546         |
| 2012                   | 4,840         |
| 2013                   | 4,050         |
| 2014                   | 3,259         |
| Thereafter             | 8,482         |
| <br>Total              | <br>\$ 30,686 |

**NOTE 10 SHORT-TERM BORROWINGS**

The following table presents the distribution of Old National's short-term borrowings and related weighted-average interest rates as of March 31, 2010:

| (dollars in thousands)                      | Federal<br>Funds<br>Purchased | Repurchase<br>Agreements | Other                    | Total      |
|---|-------------------------------|--------------------------|--------------------------|------------|
|   |                               |                          | Short-term<br>Borrowings |            |
| <b>2010</b>                                 |                               |                          |                          |            |
| Outstanding at March 31, 2010               | \$ 591                        | \$ 348,403               | \$ 8,989                 | \$ 357,983 |
| Average amount outstanding                  | 1,143                         | 319,679                  | 9,311                    | 330,133    |
| Maximum amount outstanding at any month-end | 1,421                         | 348,403                  | 10,423                   |            |
| Weighted average interest rate:             |                               |                          |                          |            |
| During three months ended                   |                               |                          |                          |            |
| March 31, 2010                              | 0.01%                         | 0.18%                    | 4.79%                    | 0.31%      |
| At March 31, 2010                           |                               | 0.17                     |                          | 0.17       |

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

During the second quarter of 2009, Old National entered into a \$30 million revolving credit facility at the parent level. The facility had an interest rate of LIBOR plus 2.00% and a maturity of 364 days. There was no amount outstanding as of March 31, 2010. The facility will mature in April 2010 and Old National does not plan to renew the facility.

**Treasury Investment Program**

As of March 31, 2010, Old National had \$9.0 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 March 31, 2010, the effective interest rate on these funds was 0%.

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

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

| (dollars in thousands)   | <b>March 31,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--|---------------------------|------------------------------|
| <b>Old National Bancorp:</b>   |                           |                              |
| Senior unsecured note (fixed rate 5.00%) maturing May 2010   | \$ 50,000                 | \$ 50,000                    |
| Junior subordinated debenture (fixed rates 6.27% to 8.00% and variable rate 3.34%) maturing April 2032 to March 2035                       | 108,000                   | 108,000                      |
| SFAS 133 fair value hedge and other basis adjustments  | (715)                     | (726)                        |
| <b>Old National Bank:</b>  |                           |                              |
| Securities sold under agreements to repurchase (fixed rates 2.45% to 3.46% and variable rate 3.05%) maturing December 2010 to October 2012 | 99,000                    | 99,000                       |
| Federal Home Loan Bank advances (fixed rates 3.20% to 8.34% and variable rates 1.82% to 2.53%) maturing August 2011 to January 2023        | 289,894                   | 289,974                      |
| Subordinated bank notes (fixed rate 6.75%) maturing October 2011   | 150,000                   | 150,000                      |
| Capital lease obligation   | 4,340                     | 4,350                        |
| SFAS 133 fair value hedge and other basis adjustments  | (136)                     | (1,539)                      |
| <b>Total other borrowings</b>  | <b>\$ 700,383</b>         | <b>\$ 699,059</b>            |

Contractual maturities of other borrowings at March 31, 2010, were as follows:

| (dollars in thousands)                                |                   |
|---|-------------------|
| Due in 2010   | \$ 74,033         |
| Due in 2011   | 225,046           |
| Due in 2012   | 100,688           |
| Due in 2013   | 76,170            |
| Due in 2014   | 50,889            |
| Thereafter  | 174,408           |
| SFAS 133 fair value hedge and other basis adjustments | (851)             |
| <b>Total</b>  | <b>\$ 700,383</b> |

**FEDERAL HOME LOAN BANK**

Federal Home Loan Bank advances had weighted-average rates of 3.67% and 3.68% at March 31, 2010, and December 31, 2009, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 150% of outstanding debt.

**SUBORDINATED BANK NOTES**

Old National Bank's notes are issued under the global note program and are not obligations of, or guaranteed by, Old National Bancorp. In accordance with the senior and subordinated global bank note program, Old National Bank may issue and sell up to a maximum of \$1 billion.

According to capital guidelines, the portion of limited-life capital instruments that is includible in Tier 2 capital is limited with-in five years or less until maturity. As of March 31, 2010, 20%, or \$30 million of the subordinated bank notes qualified as Tier 2 Capital for regulatory purposes. As shown in the table above, the subordinated bank notes mature October 2011. Capital treatment will cease October 2010, or one year prior to the maturity date.



**Table of Contents****JUNIOR SUBORDINATED DEBENTURES**

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

Old National guarantees the payment of distributions on the trust preferred securities issued by ONB Capital Trust II. ONB Capital Trust II issued \$100 million in preferred securities in April 2002. The preferred securities have a liquidation amount of \$25 per share with a cumulative annual distribution rate of 8.0% or \$2.00 per share payable quarterly and maturing on April 15, 2032. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by ONB Capital Trust II. Old National may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole, or in part, at any time without limitation. Costs associated with the issuance of these trust preferred securities totaling \$3.3 million in 2002 were capitalized and are being amortized through the maturity dates of the securities. The unamortized balance is included in other assets in the consolidated balance sheet.

In 2007, Old National acquired St. Joseph Capital Trust I and St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust I and St. Joseph Capital Trust II. St. Joseph Capital Trust I issued \$3.0 million in preferred securities in July 2003. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 305 basis points, payable quarterly and maturing on July 11, 2033. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust I. St. Joseph Capital Trust II issued \$5.0 million in preferred securities in March 2005. The preferred securities have a cumulative annual distribution rate of 6.27% until March 2010 when it will carry a variable rate of interest priced at the three-month LIBOR plus 175 basis points, payable quarterly and maturing on March 17, 2035. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust II. Old National may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole, or in part, at any time without limitation.

**CAPITAL LEASE OBLIGATION**

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

At March 31, 2010, the future minimum lease payments under the capital lease were as follows:

|   |          |
|---|----------|
| (dollars in thousands)                      |          |
| 2010 remaining                              | \$ 293   |
| 2011  | 390      |
| 2012  | 390      |
| 2013  | 390      |
| 2014  | 410      |
| Thereafter                                  | 10,903   |
| Total minimum lease payments                | 12,776   |
| Less amounts representing interest          | 8,436    |
| Present value of net minimum lease payments | \$ 4,340 |



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

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five years of employment. The freezing of the plan provides that future salary increases will not be considered. Old National's policy is to contribute at least the minimum funding requirement determined by the plan's actuary and the Company expects to contribute approximately \$0.3 million to the Retirement Plan in 2010.

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

Old National contributed \$0.1 million to cover benefit payments from the Restoration Plan during the first three months of 2010. Old National expects to contribute an additional \$0.2 million to cover benefit payments from the Restoration Plan during the remainder of 2010.

The net periodic benefit cost and its components were as follows for the three months ended March 31:

| (dollars in thousands)         | <b>Three Months Ended<br/>March 31,</b> |             |
|--------------------------------|---|-------------|
|                                | <b>2010</b>                             | <b>2009</b> |
| Interest cost                  | \$ 497                                  | \$ 493      |
| Expected return on plan assets | (490)                                   | (483)       |
| Recognized actuarial loss      | 401                                     | 363         |
| Settlement                     |   | 350         |
| Net periodic benefit cost      | \$ 408                                  | \$ 723      |

**NOTE 13 STOCK-BASED COMPENSATION**

During May 2008, shareholders approved the Company's 2008 Incentive Compensation Plan which authorizes up to a maximum of 1.0 million shares plus certain shares covered under the 1999 Equity Incentive Plan. At March 31, 2010, 1.3 million shares remained available for issuance. The granting of awards to key employees is typically in the form of options to purchase capital stock or restricted stock.

*Stock Options*

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

*Restricted Stock Awards*

The Company granted 112 thousand time-based restricted stock awards to certain key officers during 2010, with shares vesting at the end of a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of March 31, 2010, unrecognized compensation expense was estimated to be \$2.8 million for unvested restricted share awards.

Old National recorded expense of \$0.2 million, net of tax benefit, during the first three months of 2010, compared to expense of \$0.4 million during the first three months of 2009 related to the vesting of restricted share awards. Included in the first three months of 2010 is the reversal of \$0.1 million of expense associated with certain performance-based restricted stock grants. Included in the first three months of 2009 is the reversal of \$0.1 million of expense associated with certain performance-based restricted stock grants.



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

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

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

Old National recorded \$0.2 million of stock based compensation expense, net of tax, during the first three months of 2010. Old National recorded \$0.1 million of stock based compensation expense, net of tax, during the first three months of 2009.

**NOTE 14 INCOME TAXES**

Following is a summary of the major items comprising the differences in taxes from continuing operations computed at the federal statutory rate and as recorded in the consolidated statement of income for the three months ended March 31:

| (dollars in thousands)             | Three Months Ended<br>March 31, |            |
|------------------------------------|---------------------------------|------------|
|                                    | 2010                            | 2009       |
| Provision at statutory rate of 35% | \$ 4,119                        | \$ 2,334   |
| Tax-exempt income                  | (2,661)                         | (4,171)    |
| State income taxes                 | 85                              | (806)      |
| Other, net                         | 156                             | (93)       |
| Income tax expense (benefit)       | \$ 1,699                        | \$ (2,736) |
| Effective tax rate                 | 14.4%                           | (41.0)%    |

For the three months ended March 31, 2010, the effective tax rate was higher than the three months ended March 31, 2009. The tax rate increased in the first quarter of 2010 as a result of a decrease in tax-exempt income relative to taxable income.

No valuation allowance was recorded at March 31, 2010 and 2009 because, based on our current expectations, Old National believes that it will generate sufficient income in the future years to realize deferred tax assets.

**Unrecognized Tax Benefits**

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

| (dollars in thousands)                                       | 2010     | 2009     |
|--|----------|----------|
| Balance at January 1   | \$ 8,500 | \$ 7,513 |
| Additions based on tax positions related to the current year | 164      | 13       |
| Balance at March 31  | \$ 8,664 | \$ 7,526 |

Approximately \$1.4 million of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods.



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

As part of the Company's overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was \$297.5 million and \$297.5 million at March 31, 2010 and December 31, 2009, respectively. Both the March 31, 2010 and December 31, 2009 balances consist of \$197.5 million notional amount of receive-fixed interest rate swaps on certain of its FHLB advances and \$100.0 million notional amount of receive-fixed interest rate swaps on certain commercial loans. These hedges were entered into to manage both interest rate risk and asset sensitivity on the balance sheet. These derivative instruments are recognized on the balance sheet at their fair value.

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At March 31, 2010, the notional amount of the interest rate lock commitments and forward commitments were \$7.8 million and \$11.2 million, respectively. At December 31, 2009, the notional amount of the interest rate lock commitments and forward commitments were \$20.0 million and \$36.1 million, respectively. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitment to fund the loans. All derivative instruments are recognized on the balance sheet at their fair value.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were \$451.8 million and \$451.8 million, respectively, at March 31, 2010. At December 31, 2009, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were \$479.8 million and \$479.8 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps and foreign exchange forward contracts. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

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

|  | <b>Asset Derivatives</b> |                  |                          |                  |
|--|--------------------------|------------------|--------------------------|------------------|
|  | <b>March 31, 2010</b>    |                  | <b>December 31, 2009</b> |                  |
|  | <b>Balance</b>           |                  | <b>Balance</b>           |                  |
|  | <b>Sheet</b>             |                  | <b>Sheet</b>             |                  |
|  | <b>Location</b>          | <b>Fair</b>      | <b>Location</b>          | <b>Fair</b>      |
|  |                          | <b>Value</b>     |                          | <b>Value</b>     |
| (dollars in thousands)                                     |                          |                  |                          |                  |
| <b>Derivatives designated as hedging instruments</b>       |                          |                  |                          |                  |
| Interest rate contracts                                    | Other assets             | \$ 3,577         | Other assets             | \$ 1,789         |
| <b>Total derivatives designated as hedging instruments</b> |                          | <b>\$ 3,577</b>  |                          | <b>\$ 1,789</b>  |
| <b>Derivatives not designated as hedging instruments</b>   |                          |                  |                          |                  |
| Interest rate contracts                                    | Other assets             | \$ 29,127        | Other assets             | \$ 27,749        |
| Foreign exchange contracts                                 | Other assets             |                  | Other assets             | 12               |
| Mortgage contracts   | Other assets             | 184              | Other assets             | 370              |
|  |                          | <b>\$ 29,311</b> |                          | <b>\$ 28,131</b> |

**Total derivatives not designated as hedging  
instruments**

|                         |           |           |
|-------------------------|-----------|-----------|
| Total derivative assets | \$ 32,888 | \$ 29,920 |
|-------------------------|-----------|-----------|

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|  | <b>Liability Derivatives</b>          |                       |                                       |                       |
|--|---------------------------------------|-----------------------|---------------------------------------|-----------------------|
|  | <b>March 31, 2010</b>                 |                       | <b>December 31, 2009</b>              |                       |
| (dollars in thousands)   | <b>Balance<br/>Sheet<br/>Location</b> | <b>Fair<br/>Value</b> | <b>Balance<br/>Sheet<br/>Location</b> | <b>Fair<br/>Value</b> |
| <b>Derivatives designated as hedging instruments</b>           |                                       |                       |                                       |                       |
| Interest rate contracts  | Other<br>liabilities                  | \$ 494                | Other<br>liabilities                  | \$ 1,188              |
| <b>Total derivatives designated as hedging instruments</b>     |                                       | <b>\$ 494</b>         |                                       | <b>\$ 1,188</b>       |
| <b>Derivatives not designated as hedging instruments</b>       |                                       |                       |                                       |                       |
| Interest rate contracts  | Other<br>liabilities                  | \$ 29,659             | Other<br>liabilities                  | \$ 28,279             |
| Foreign exchange contracts                                     | Other<br>liabilities                  |                       | Other<br>liabilities                  | 12                    |
| <b>Total derivatives not designated as hedging instruments</b> |                                       | <b>\$ 29,659</b>      |                                       | <b>\$ 28,291</b>      |
| <b>Total derivative liabilities</b>                            |                                       | <b>\$ 30,153</b>      |                                       | <b>\$ 29,479</b>      |

The effect of derivative instruments on the Consolidated Statement of Income for the three months ended March 31, 2010 and 2009 are as follows:

|  | <b>Location of<br/>Gain or (Loss)<br/>Recognized in<br/>Income on<br/>Derivative</b> | <b>Amount of Gain or (Loss)<br/>Recognized in Income on<br/>Derivative</b> |  |
|--|--|--|--|
|  |  | <b>Three<br/>months<br/>ended<br/>March<br/>31, 2010</b>                   | <b>Three<br/>months<br/>ended<br/>March 31,<br/>2009</b> |
| (dollars in thousands)                                 |  |  |  |
| <b>Derivatives in Fair Value Hedging Relationships</b> |  |  |  |
| Interest rate contracts (1)                            | Interest income /<br>(expense)   | \$ 1,041   | \$ 540   |
| Interest rate contracts (2)                            | Other income /<br>(expense)  | 622  | 12   |
| <b>Total</b>   |  | <b>\$ 1,663</b>  | <b>\$ 552</b>  |
|  | <b>Location of<br/>Gain or (Loss)</b>  | <b>Amount of Gain or<br/>(Loss)</b>  |  |

| <b>Derivatives in Cash Flow Hedging Relationships</b> | <b>Recognized in<br/>Income on<br/>Derivative</b> | <b>Recognized in Income<br/>on<br/>Derivative</b> |        |
|---|---|---|--------|
| Interest rate contracts (1)                           | Interest income /<br>(expense)                    | \$ 393  | \$ 120 |
| Total   |   | \$ 393  | \$ 120 |

| <b>Derivatives Not Designated as Hedging Instruments</b> | <b>Location of<br/>Gain or (Loss)<br/>Recognized in<br/>Income on<br/>Derivative</b> | <b>Amount of Gain or<br/>(Loss)<br/>Recognized in Income<br/>on<br/>Derivative</b> |          |
|--|--|--|----------|
| Interest rate contracts (1)                              | Interest income /<br>(expense)   | \$   | \$ (360) |
| Interest rate contracts (3)                              | Other income /<br>(expense)  | 1  | 472      |
| Mortgage contracts                                       | Mortgage banking<br>revenue  | (186)  | 328      |
| Total  |  | \$ (185)   | \$ 440   |

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

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

(3) Includes both the valuation differences between the customer and offsetting counterparty swaps as well as the change in the value of the derivative

instruments  
entered into to  
offset the  
change in fair  
value of certain  
retail certificates  
of deposit which  
the company  
elected to record  
at fair value.

See Note 19 to  
the consolidated  
financial  
statements.

**NOTE 16 COMMITMENTS AND CONTINGENCIES  
LITIGATION**

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

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

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In November 2002, several beneficiaries of certain trusts filed a complaint against Old National and Old National Trust Company in the United States District Court for the Western District of Kentucky relating to the administration of the trusts in 1997. The complaint, as amended, alleged that Old National (through a predecessor), as trustee, mismanaged termination of a lease between the trusts and a tenant mining company. The complaint seeks, among other relief, unspecified damages, (costs and expenses, including attorneys' fees, and such other relief as the court might find just and proper.) On March 25, 2009, the Court granted summary judgment to Old National concluding that the plaintiffs do not have standing to sue Old National in this matter. The plaintiffs subsequently filed a motion to alter or amend the judgment with the Court. The Plaintiffs motion to alter or amend the judgment was granted by the Court on July 29, 2009, reversing the Court's March 25, 2009 Order as to standing. The July 29, 2009 Order permitted Old National to file a new motion for summary judgment with respect to issues that had not been resolved by the Court. On December 10, 2009, the Court granted Old National partial summary judgment and also granted a motion by Plaintiffs to amend their complaint. The Court's December 10, 2009 Order permits Old National to file a new motion for summary judgment on the amended complaint. Old National filed its motion for summary judgment on January 22, 2010. The briefing schedule on the motion is now complete and it is now ripe for the judge to rule. Old National continues to believe that it has meritorious defenses to each of the claims in the lawsuit and intends to continue to vigorously defend the lawsuit. There can be no assurance, however, that Old National will be successful, and an adverse resolution of the lawsuit could have a material adverse effect on its consolidated financial position and results of operations in the period in which the lawsuit is resolved. Old National is not presently able to reasonably estimate potential losses, if any, related to the lawsuit and has not recorded a liability in its accompanying Consolidated Balance Sheets.

**LEASES**

Old National rents certain premises and equipment under operating leases, which expire at various dates. Many of these leases require the payment of property taxes, insurance premiums, maintenance and other costs. In some cases, rentals are subject to increase in relation to a cost-of-living index.

In December 2006, Old National entered into a sale leaseback agreement with an unrelated third party for its three main buildings in downtown Evansville, Indiana. Old National sold assets with a carrying value of \$69.9 million, received approximately \$79.0 million in cash and incurred \$0.4 million of selling costs. The \$8.7 million deferred gain will be amortized over the term of the lease. The agreement requires rent payments of approximately \$6.6 million per year over the next 20 years.

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

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

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

During 2009, Old National sold five financial centers in sale leaseback transactions to unrelated parties. Old National received cash proceeds of \$10.6 million, net of selling costs. The properties sold had a carrying value of \$9.2 million. The \$1.4 million deferred gain will be amortized over the term of the leases. The leases have terms of fifteen and twenty years. Under the lease agreements, Old National is obligated to pay a base rent of \$1.0 million per year. In March 2009, Old National acquired the Indiana retail branch banking network of Citizens Financial Group. The network included 65 leased locations. Old National closed or merged 11 of these locations into existing branch locations during 2009. The leases have 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 \$2.5 million per year.

**CREDIT-RELATED FINANCIAL INSTRUMENTS**

In the normal course of business, Old National's banking affiliates have entered into various agreements to extend credit, including loan commitments of \$1.073 billion and standby letters of credit of \$105.3 million at March 31, 2010. At March 31, 2010, approximately \$1.019 billion of the loan commitments had fixed rates and \$54 million had floating rates, with the fixed interest rates ranging from 0% to 18%. At December 31, 2009, loan commitments were \$1.038 billion and standby letters of credit were \$103.2 million. These commitments are not reflected in the consolidated financial statements. At March 31, 2010 and December 31, 2009, the balance of the allowance for unfunded loan commitments was \$4.7 million and \$5.5 million, respectively.

At March 31, 2010 and December 31, 2009 Old National had credit extensions of \$25.8 million and \$25.9 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients. At March 31, 2010 and December 31, 2009, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling \$22.7 million and \$22.8 million, respectively. Old National did not provide collateral for the remaining credit extensions.

**NOTE 17 FINANCIAL GUARANTEES**

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At March 31, 2010, the notional amount of standby letters of credit was \$105.3 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.6 million. At December 31, 2009, the notional amount of standby letters of credit was \$103.2 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.6 million.

During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap has a notional amount of \$9.3 million at March 31, 2010.

**Table of Contents****NOTE 18 SEGMENT INFORMATION**

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

Treasury manages investments, wholesale funding, interest rate risk, liquidity and leverage for Old National.

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

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

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

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

Summarized financial information concerning segments is shown in the following table for the three months ended March 31:

| (dollars in thousands)                   | <b>Community<br/>Banking</b> | <b>Treasury</b> | <b>Other</b> | <b>Total</b> |
|--|------------------------------|-----------------|--------------|--------------|
| <b>Three months ended March 31, 2010</b> |                              |                 |              |              |
| Net interest income                      | \$ 61,725                    | \$ (5,688)      | \$ (920)     | \$ 55,117    |
| Provision for loan losses                | 9,306                        |                 | (25)         | 9,281        |
| Noninterest income                       | 21,537                       | 4,236           | 17,219       | 42,992       |
| Noninterest expense                      | 60,028                       | 1,281           | 15,751       | 77,060       |
| Income (loss) before income taxes        | 13,928                       | (2,733)         | 573          | 11,768       |
| Total assets                             | 3,991,808                    | 3,716,264       | 110,178      | 7,818,250    |
| <b>Three months ended March 31, 2009</b> |                              |                 |              |              |
| Net interest income                      | \$ 69,458                    | \$ (9,754)      | \$ (506)     | \$ 59,198    |
| Provision for loan losses                | 17,300                       |                 |              | 17,300       |
| Noninterest income                       | 20,176                       | 4,200           | 17,859       | 42,235       |
| Noninterest expense                      | 59,478                       | 1,448           | 16,538       | 77,464       |
| Income (loss) before income taxes        | 12,856                       | (7,002)         | 815          | 6,669        |
| Total assets                             | 4,853,040                    | 3,392,117       | 110,911      | 8,356,068    |

**NOTE 19 FAIR VALUE**

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

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



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

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

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

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

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

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

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

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

|   | Carrying<br>Value | Fair Value Measurements at March 31, 2010<br>Using<br>Significant                |  |  |
|---|-------------------|--|--|--|
|   |                   | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (dollars in thousands)                          |                   |  |  |  |
| <b>Financial Assets</b>                         |                   |  |  |  |
| Investment securities available-for-sale:       |                   |  |  |  |
| U.S. Treasury                                   | \$ 51,218         | \$ 51,218  | \$   | \$   |
| U.S. Government-sponsored entities and agencies | 857,966           |  | 857,966                                    |  |
| Mortgage-backed securities Agency               | 726,026           |  | 726,026                                    |  |
| Mortgage-backed securities Non-agency           | 165,447           |  | 165,447                                    |  |
| States and political subdivisions               | 559,719           |  | 559,719                                    |  |
| Pooled trust preferred securities               | 11,729            |  |  | 11,729   |
| Other securities                                | 147,921           |  | 147,921                                    |  |
| Residential loans held for sale                 | 4,009             |  | 4,009                                      |  |
| Derivative assets                               | 32,888            |  | 32,888                                     |  |
| <b>Financial Liabilities</b>                    |                   |  |  |  |
| Derivative liabilities                          | 30,153            |  | 30,153                                     |  |

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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 three months ended March 31, 2010.

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

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 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 | (32)   |
| Payments received                             |  |
| Credit loss write-downs                       |  |
| Increase/decrease in fair value of securities | (637)  |
| Ending balance, March 31, 2010                | \$ 11,729  |

Included in the income statement is \$32 thousand of expense included in interest income from the amortization of discounts on securities. The decrease in fair value is reflected in the balance sheet as a decrease in the fair value of

investment securities available-for sale, a decrease in accumulated other comprehensive income, which is included in shareholders' equity, and an increase in other assets related to the tax impact.

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The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the twelve months ended December 31, 2009:

|   | <b>Fair Value<br/>Measurements<br/>using Significant<br/>Unobservable Inputs<br/>(Level 3)<br/>Pooled Trust Preferred<br/>Securities Available-<br/>for-Sale</b> |
|---|--|
| (dollars in thousands)                        |  |
| Beginning balance, January 1, 2009            | \$ 19,667  |
| Accretion/amortization of discount or premium | (141)  |
| Payments received                             | (110)  |
| Credit loss write-downs                       | (20,366)   |
| Increase/decrease in fair value of securities | 13,348   |
| Ending balance, December 31, 2009             | \$ 12,398  |

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

|                         | <b>Carrying<br/>Value</b> | <b>Fair Value Measurements at March 31, 2010<br/>Using<br/>Significant</b>                        |  |  |
|-------------------------|---------------------------|---|--|--|
|                         |                           | <b>Quoted<br/>Prices in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| (dollars in thousands)  |                           |   |  |  |
| <b>Financial Assets</b> |                           |   |  |  |
| Impaired loans          | \$ 20,890                 |   |  | \$ 20,890  |

Impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of \$35.5 million, with a valuation allowance of \$14.6 million at March 31, 2010. Old National recorded \$2.2 million of provision expense associated with these loans for the three months ended March 31, 2010.

|                        | <b>Carrying<br/>Value</b> | <b>Fair Value Measurements at December 31, 2009<br/>Using<br/>Significant</b>                     |  |  |
|------------------------|---------------------------|---|--|--|
|                        |                           | <b>Quoted<br/>Prices in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| (dollars in thousands) |                           |   |  |  |

**Financial Assets**

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

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

**Financial instruments recorded using fair value option**

Under FASB ASC 825-10 (SFAS No. 159), the Company may elect to report most financial instruments and certain other items at fair value on an instrument-by instrument basis with changes in fair value reported in net income. After the initial adoption, the election is made at the acquisition of an eligible financial asset, financial liability or firm commitment or when certain specified reconsideration events occur. The fair value election may not be revoked once an election is made.

The Company has elected the fair value option for the following items:

- Residential mortgage loans held for sale

- Certain retail certificates of deposit

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For items for which the fair value option has been elected, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on financial assets (except any that are on nonaccrual status). Included in the income statement are \$83 thousand and \$136 thousand of interest income for residential loans held for sale for the three months ended March 31, 2010 and 2009, respectively. Interest expense is recorded based on the contractual amount of interest expense incurred. The income statement includes \$0 and \$71 thousand of interest expense for the three months ended March 31, 2010 and 2009, respectively, for certain retail certificates of deposit.

**Residential mortgage loans held for sale**

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

**Certain retail certificates of deposit**

Old National has elected the fair value option for certain retail certificates of deposit; specifically, pools of retail certificates of deposit that have been matched with derivative instruments. Old National has elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification. At March 31, 2010, there were no retail certificates of deposit accounted for under the fair value option.

As of March 31, 2010, the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected is as follows. Accrued interest at period end is included in the fair value of the instruments.

| (dollars in thousands)          | <b>Aggregate<br/>Fair Value</b> | <b>Difference</b> | <b>Contractual<br/>Principal</b> |
|---------------------------------|---------------------------------|-------------------|----------------------------------|
| Residential loans held for sale | <b>\$ 4,009</b>                 | <b>\$ 61</b>      | <b>\$ 3,948</b>                  |

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the three months ended March 31, 2010:

**Changes in Fair Value for the Three Months ended March 31, 2010, for Items  
Measured at Fair Value Pursuant to Election of the Fair Value Option**

| (dollars in thousands)          | <b>Other<br/>Gains and<br/>(Losses)</b> | <b>Interest<br/>Income</b> | <b>Interest<br/>(Expense)</b> | <b>Total Changes<br/>in Fair Values<br/>Included in<br/>Current<br/>Period<br/>Earnings</b> |
|---------------------------------|---|----------------------------|-------------------------------|---|
| Residential loans held for sale | <b>\$ (223)</b>                         | <b>\$</b>                  | <b>\$</b>                     | <b>\$ (223)</b>   |

As of March 31, 2009, the difference between the aggregate fair value and the aggregate remaining principal balance for loans and certificates of deposit for which the fair value option has been elected was as follows. Accrued interest at period end is included in the fair value of the instruments.

| (dollars in thousands)                 | <b>Aggregate<br/>Fair Value</b> | <b>Difference</b> | <b>Contractual<br/>Principal</b> |
|--|---------------------------------|-------------------|----------------------------------|
| Residential loans held for sale        | <b>\$ 19,609</b>                | <b>\$ 604</b>     | <b>\$ 19,005</b>                 |
| Certain retail certificates of deposit | <b>6,034</b>                    | <b>144</b>        | <b>5,890</b>                     |





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The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the three ended March 31, 2009:

**Changes in Fair Value for the Three Months ended March 31, 2009, for Items  
Measured at Fair Value Pursuant to Election of the Fair Value Option**

|  | <b>Other</b>     | <b>Interest</b> | <b>Interest</b>  | <b>Total Changes</b>  |
|--|------------------|-----------------|------------------|-----------------------|
|  | <b>Gains and</b> | <b>Income</b>   | <b>(Expense)</b> | <b>in Fair Values</b> |
| (dollars in thousands)                 | <b>(Losses)</b>  | <b></b>         | <b></b>          | <b>Included in</b>    |
|  | <b></b>          | <b></b>         | <b></b>          | <b>Current</b>        |
|  | <b></b>          | <b></b>         | <b></b>          | <b>Period</b>         |
|  | <b></b>          | <b></b>         | <b></b>          | <b>Earnings</b>       |
| Residential loans held for sale        | \$ 605           | \$              | \$ (1)           | \$ 604                |
| Certain retail certificates of deposit | (61)             |                 | (83)             | (144)                 |

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

|   | <b>Carrying</b> | <b>Fair</b>  |
|---|-----------------|--------------|
| (dollars in thousands)  | <b>Value</b>    | <b>Value</b> |
| <b>March 31, 2010</b>   |                 |              |
| <b>Financial Assets</b>   |                 |              |
| Cash, due from banks, federal funds sold and money market investments | \$ 380,160      | \$ 380,160   |
| Investment securities held-to-maturity:                               |                 |              |
| U.S. Government-sponsored entities and agencies                       | 291,373         | 295,811      |
| Mortgage-backed securities Agency                                     | 156,618         | 160,585      |
| Other securities  | 2,045           | 1,674        |
| Federal Home Loan Bank stock  | 36,090          | 36,090       |
| Finance leases held for sale  | 52,225          | 52,476       |
| Loans, net (including impaired loans)                                 |                 |              |
| Commercial and commercial real estate                                 | 2,210,968       | 2,290,751    |
| Residential real estate   | 401,355         | 421,005      |
| Consumer credit   | 1,030,522       | 1,101,675    |
| Accrued interest receivable   | 44,583          | 44,583       |
| <b>Financial Liabilities</b>  |                 |              |
| Deposits:   |                 |              |
| Noninterest-bearing demand deposits                                   | \$ 1,179,809    | \$ 1,179,809 |
| NOW, savings and money market deposits                                | 2,659,586       | 2,659,586    |
| Time deposits   | 1,852,097       | 1,899,941    |
| Short-term borrowings:  |                 |              |
| Federal funds purchased   | 591             | 591          |
| Repurchase agreements   | 348,403         | 348,411      |
| Other short-term borrowings   | 8,989           | 8,989        |
| Other borrowings:   |                 |              |
| Senior unsecured note   | 50,000          | 50,080       |
| Junior subordinated debenture   | 108,000         | 110,717      |
| Repurchase agreements   | 99,000          | 103,873      |
| Federal Home Loan Bank advances                                       | 289,894         | 304,104      |
| Subordinated bank notes   | 150,000         | 154,237      |

|                           |        |        |
|---------------------------|--------|--------|
| Capital lease obligation  | 4,340  | 4,905  |
| Accrued interest payable  | 14,265 | 14,265 |
| Standby letters of credit | 577    | 577    |

**Off-Balance Sheet Financial Instruments**

|                              |    |    |       |
|------------------------------|----|----|-------|
| Commitments to extend credit | \$ | \$ | 1,408 |
|------------------------------|----|----|-------|

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| (dollars in thousands)  | <b>Carrying<br/>Value</b> | <b>Fair<br/>Value</b> |
|---|---------------------------|-----------------------|
| <b>December 31, 2009</b>  |                           |                       |
| <b>Financial Assets</b>   |                           |                       |
| Cash, due from banks, federal funds sold and money market investments | \$ 497,276                | \$ 497,276            |
| Investment securities held-to-maturity                                | 396,009                   | 399,953               |
| Federal Home Loan Bank stock  | 36,090                    | 36,090                |
| Finance leases held for sale  | 55,260                    | 55,449                |
| Loans, net (including impaired loans)                                 | 3,765,938                 | 3,975,545             |
| Accrued interest receivable   | 49,340                    | 49,340                |
| <b>Financial Liabilities</b>  |                           |                       |
| Deposits  | \$ 5,903,488              | \$ 5,950,705          |
| Short-term borrowings   | 331,144                   | 331,156               |
| Other borrowings  | 699,059                   | 724,364               |
| Accrued interest payable  | 12,778                    | 12,778                |
| Standby letters of credit   | 578                       | 578                   |
| <b>Off-Balance Sheet Financial Instruments</b>                        |                           |                       |
| Commitments to extend credit  | \$                        | \$ 1,643              |

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

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

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

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

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

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

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

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

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

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

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

these financial instruments, see Notes 16 and 17.

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

**EXECUTIVE SUMMARY**

While we are starting to see some positive economic indicators, the Company continues to be affected by a challenging credit environment and weak loan demand. During the first quarter of 2010, net income available to common stockholders improved to \$10.1 million, compared to a loss of \$9.3 million in the fourth quarter of 2009 and net income available to common shareholders of \$5.5 million in the first quarter of 2009. Diluted earnings per share available to common shareholders were \$0.12 per share, compared to a net loss of \$0.11 per share in the fourth quarter of 2009 and earnings of \$0.08 per share in the first quarter of 2009.

In response to current economic and market conditions, management remains focused on expense rationalization and process improvement. Recently, the Company initiated Simple, Easy, Fast (SEF), an initiative designed to improve the client experience, enhance revenue and improve our operating efficiency. These initiatives will be implemented throughout the year.

Credit metrics remain well controlled relative to the industry. At March 31, 2010, our reserve for loan losses was \$72.1 million, compared to \$71.8 million at March 31, 2009. The allowance for loan losses equaled 106% of nonperforming loans at March 31, 2010 compared to 93% at March 31, 2009. Annualized, net charge-offs were 0.70% of average loans in the first quarter of 2010 compared to 1.07% in 2009.

Our balance sheet is well positioned given the current economic environment. We continue to maintain strong liquidity and have substantial resources for sound lending and investment opportunities.

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

The following table sets forth certain income statement information of Old National for the three months ended March 31, 2010 and 2009:

| (dollars in thousands)           | Three Months Ended |                   | %<br>Change |
|----------------------------------|--------------------|-------------------|-------------|
|                                  | 2010               | March 31,<br>2009 |             |
| <b>Income Statement Summary:</b> |                    |                   |             |
| Net interest income              | \$ 55,117          | \$ 59,198         | (6.9)%      |
| Provision for loan losses        | 9,281              | 17,300            | (46.4)      |
| Noninterest income               | 42,992             | 42,235            | 1.8         |
| Noninterest expense              | 77,060             | 77,464            | (0.5)       |
| <b>Other Data:</b>               |                    |                   |             |
| Return on average common equity  | 4.74%              | 3.43%             |             |
| Efficiency ratio                 | 75.68              | 72.20             |             |
| Tier 1 leverage ratio            | 9.44               | 7.30              |             |
| Net charge-offs to average loans | 0.70               | 1.07              |             |

**Net Interest Income**

Net interest income is our most significant component of earnings, comprising over 56% of revenues at March 31, 2010. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources and interest rate fluctuations. Other factors include prepayment risk on mortgage and investment-related assets and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Factors such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize our mix of assets and funding and our net interest income and margin.

Net interest income and net interest margin in the following discussion are presented on a fully taxable equivalent basis, which adjusts tax-exempt or nontaxable interest income to an amount that would be comparable to interest subject to income taxes using the federal statutory tax rate of 35% in effect for all periods. Net income is unaffected by these taxable equivalent adjustments as the offsetting increase of the same amount is made to income tax expense. Net interest income includes taxable equivalent adjustments of \$3.7 million and \$5.9 million for the three months ended March 31, 2010 and 2009, respectively.

Taxable equivalent net interest income was \$58.8 million for the three months ended March 31, 2010, down from the \$65.1 million reported for the three months ended March 31, 2009. The net interest margin was 3.33% for the three months ended March 31, 2010, compared to 3.63% for the three months ended March 31, 2009. The decrease in both net interest income and net interest margin is primarily due to the decrease in the yield on interest earning assets being greater than the decrease in the cost of interest-bearing liabilities, combined with a change in the mix of interest earning assets and interest-bearing liabilities. The yield on average earning assets decreased 67 basis points from 5.27% to 4.60%. The cost of interest-bearing liabilities decreased 33 basis points from 1.93% to 1.60%.

Average earning assets were \$7.067 billion for the three months ended March 31, 2010, compared to \$7.177 billion for the three months ended March 31, 2009, a decrease of 1.5%, or \$110.9 million. Significantly affecting average earning assets at March 31, 2010 compared to March 31, 2009, was the increase in the size of the investment portfolio combined with the increase in interest earning cash balances held at the Federal Reserve and the reduction of the size of the loan portfolio. During the three months ended March 31, 2010, \$281.7 billion of investment securities were purchased and \$128.0 million of investment securities were called by the issuers or sold. During the third quarter of 2009, approximately \$258.0 million of leases held for sale were sold. In addition, commercial and commercial real estate loans have been affected by continued weak loan demand in our markets, more stringent loan underwriting standards and our desire to lower future potential credit risk by being cautious towards the real estate market. A \$281.7 million decrease in average commercial loans was combined with a \$98.7 million decrease in commercial real

estate loans. Year over year, the investment portfolio, which generally has an average yield lower than the loan portfolio, has increased as a percent of interest earning assets.

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Also affecting margin was an increase in noninterest-bearing demand deposits combined with a decrease in time deposits. During 2009, \$81.0 million of high cost brokered certificates of deposit were called and \$70.0 million of retail certificates of deposit were called. In the fourth quarter of 2009, we prepaid \$105.0 million of FHLB advances. During 2009, a total of \$130.0 million of FHLB advances were prepaid. Year over year, time deposits and brokered certificates of deposit, which have an average interest rate higher than other types of deposits, have decreased as a percent of total funding. Also, short-term borrowings and other borrowings have decreased as a percent of total funding. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding.

**Provision for Loan Losses**

The provision for loan losses was \$9.3 million for the three months ended March 31, 2010, compared to \$17.3 million for the three months ended March 31, 2009. The lower provision in 2010 is primarily attributable to a decrease in net charge-offs combined with a decrease in nonaccrual loans at March 31, 2010 compared to March 31, 2009.

**Noninterest Income**

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products and insurance. Noninterest income for the three months ended March 31, 2010 was \$43.0 million, an increase of \$0.8 million, or 1.8%, from the \$42.2 million reported for the three months ended March 31, 2009. Net securities gains were \$3.0 million for the three months ended March 31, 2010, compared to net securities gains of \$3.2 million for the three months ended March 31, 2009. Included in the first quarter of 2010 is a \$0.5 million charge for other-than-temporary-impairment on six non-agency mortgage-backed securities. Included in the first quarter of 2009 is a \$2.4 million charge for other-than-temporary-impairment on three pooled trust preferred securities. Wealth management fees were \$4.3 million for the three months ended March 31, 2010 as compared to \$3.8 million for the three months ended March 31, 2009. Trust fee income has increased as a result of higher market values of managed assets.

Service charges and overdraft fees on deposit accounts were \$11.9 million for the three months ended March 31, 2010, compared to \$10.7 million for the three months ended March 31, 2009. The increase in revenue is primarily attributable to the acquisition of the retail branch banking network of Citizens Financial Group in March 2009. Service charges and overdraft fees might be adversely affected in the second half of 2010 pending future regulatory developments.

Debit card and ATM fees were \$5.5 million for the three months ended March 31, 2010, compared to \$4.1 million for the three months ended March 31, 2009. The increase in debit card usage is primarily attributable to the Citizens Financial branch acquisition.

Mortgage banking revenue was \$0.5 million for the three months ended March 31, 2010, compared to \$1.7 million for the three months ended March 31, 2009. Mortgage fee revenue declined as a result of lower loan production and our decision to retain more mortgage production and sell less to the secondary market.

Insurance premiums and commissions decreased \$1.2 million, or 10.6%, for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009 primarily as a result of a decrease in contingency income.



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Revenue from company-owned life insurance was \$0.8 million for the three months ended March 31, 2010, compared to \$0.7 million for the three months ended March 31, 2009. During the third quarter of 2008, the crediting rate formula for the 1997 company-owned life insurance policy was amended to adopt a more conservative position and improve the overall market to book value ratio. This change resulted in lower revenues in 2009 and while we expect revenues to increase gradually in 2010 and future years, we also anticipate revenue will remain below 2008 levels. Fluctuations in the value of our derivatives resulted in a gain on derivatives of \$0.6 million in the first quarter of 2010 as compared to a gain on derivatives of \$0.5 million in the first quarter of 2009.

**Noninterest Expense**

Noninterest expense for the three months ended March 31, 2010, totaled \$77.1 million, a decrease of \$0.4 million, or 0.5%, from the \$77.5 million recorded for the three months ended March 31, 2009. An increase in occupancy expense and amortization of intangibles was offset by a decrease in professional fees and other expense.

Salaries and benefits is the largest component of noninterest expense. For the three months ended March 31, 2010, salaries and benefits were \$42.4 million compared to \$42.7 million for the three months ended March 31, 2009.

Included in the first quarter of 2010 is a full quarter of expense associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which occurred in the first quarter of 2009. Offsetting this increase was a \$2.4 million decrease in performance-based incentive compensation expense, a \$0.3 million decrease in pension expense and a \$0.3 million decrease in other salary expense.

Occupancy expense increased \$1.6 million for the three months ended March 31, 2010, compared to the three months ended March 31, 2009, primarily as a result of increases in rent expense and the amortization of leasehold improvements. The increase in rent expense is primarily related to the additional 65 branches acquired from Citizens Financial in the first quarter of 2009. The increase in amortization expense is also related to the acquisition of the branches from Citizens Financial.

Professional fees decreased \$0.9 million for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009. The decrease is primarily attributable to legal and other professional fees associated with the acquisition of the Citizens Financial branch network in the first quarter of 2009.

FDIC assessment expense was \$2.4 million for the three months ended March 31, 2010, compared to \$2.1 million for the three months ended March 31, 2009. The increase is primarily due to the increase in the rates banks pay for deposit insurance. In the fourth quarter of 2009, the FDIC announced that it would require insured institutions to prepay their estimated 2010, 2011 and 2012 assessments in December 2009. As of March 31, 2010, our prepaid assessment was \$28.6 million and will be expensed over the next three years as the actual FDIC assessments are determined.

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

Other expense for the three months ended March 31, 2010, totaled \$2.5 million, a decrease of \$1.6 million compared to the three months ended March 31, 2009. The provision for unfunded commitments decreased \$1.0 million for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009. The decrease is the result of a reduction in unfunded commitment exposure due to improved credit quality. Included in the first quarter of 2009 is approximately \$1.0 million of conversion expenses related to the acquisition of the retail branch banking network of Citizens Financial Group.

**Provision for Income Taxes**

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was 14.4% for the three months ended March 31, 2010, compared to a benefit of 41.0% for the three months ended March 31, 2009. The tax rate increased in the first quarter of 2010 as a result of a decrease in tax-exempt income relative to taxable income. See Note 14 to the consolidated financial statements for additional information.



**Table of Contents****FINANCIAL CONDITION****Overview**

At March 31, 2010, our assets were \$7.818 billion, a 6.4% decrease compared to March 31, 2009 assets of \$8.356 billion, and an annualized decrease of 9.3% compared to December 31, 2009 assets of \$8.005 billion. The decrease in loan balances over the past twelve months has more than offset the increases in investment securities and interest earning cash balances, reducing our reliance on higher cost deposits and wholesale funding. In September 2009, Old National sold \$258.0 million of finance leases and raised approximately \$195.7 million, net of issuance costs, from a public offering of common stock. Year over year, time deposits and brokered certificates of deposit, which have an average interest rate higher than other types of deposits, have decreased as a percent of total funding. Also, short-term borrowings and other borrowings have decreased as a percent of total funding. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding.

**Earning Assets**

Our earning assets are comprised of investment securities, portfolio loans, loans and leases held for sale, money market investments, and interest earning cash balances held at the Federal Reserve. Earning assets were \$7.036 billion at March 31, 2010, a decrease of 6.5% from March 31, 2009.

*Investment Securities*

We classify the majority of our investment securities as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we do have \$156.6 million of 15- and 20-year fixed-rate mortgage pass-through securities and \$291.4 million of U.S. government-sponsored entity and agency securities in our held-to-maturity investment portfolio at March 31, 2010.

At March 31, 2010, the total investment securities portfolio was \$3.006 billion compared to \$2.844 billion at March 31, 2009, an increase of \$161.8 million or 5.7%. Investment securities increased \$87.8 million compared to December 31, 2009, an annualized increase of 12.0%. Investment securities represented 42.7% of earning assets at March 31, 2010, compared to 37.8% at March 31, 2009, and 42.5% at December 31, 2009. Contributing to the increase in investment securities were weak loan demand, strong deposit growth, cash proceeds from the Citizens Financial branch acquisition and the sale of certain finance leases, and our public offering of common stock. Stronger commercial loan demand in the future and management's efforts to deleverage the balance sheet could result in a reduction in the securities portfolio. As of March 31, 2010, 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 losses of \$1.0 million at March 31, 2010, a decrease of \$56.0 million compared to net unrealized losses of \$57.0 million at March 31, 2009, and a decrease of \$12.0 million compared to net unrealized losses of \$13.0 million at December 31, 2009. A \$0.5 million charge was recorded during the first three months of 2010 related to other-than-temporary-impairment on six non-agency mortgage-backed securities. A \$24.8 million charge was recorded during 2009 related to other-than-temporary-impairment on six pooled trust preferred securities and ten non-agency mortgage-backed securities. Contributing to the volatility in net unrealized losses over the past twelve months are changes in interest rates and the financial crisis affecting the banking system and financial markets. See Note 5 to the consolidated financial statements for the impact of other-than-temporary-impairment in other comprehensive income and Note 6 to the consolidated financial statements for details on management's evaluation of securities for other-than-temporary-impairment.

The investment portfolio had an average duration of 4.45% at March 31, 2010, compared to 4.64% at March 31, 2009, and 4.63% at December 31, 2009. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. The annualized average yields on investment securities, on a taxable equivalent basis, were 4.41% for the three months ended March 31, 2010, compared to 5.45% for the three months ended March 31, 2009, and 4.31% for the three months ended December 31, 2009.



**Table of Contents***Residential Loans Held for Sale*

Residential loans held for sale were \$4.0 million at March 31, 2010, compared to \$19.6 million at March 31, 2009, and \$17.5 million at December 31, 2009. Residential loans held for sale are loans that are closed, but not yet purchased by investors. The amount of residential loans held for sale on the balance sheet varies depending on the amount of originations and timing of loan sales to the secondary market. The majority of new loan production during the first quarter of 2010 was retained in our loan portfolio, resulting in lower residential loans held for sale at March 31, 2010.

We elected the fair value option under FASB ASC 825-10 (SFAS No. 159) prospectively for residential loans held for sale. The election was effective for loans originated after January 1, 2008. The aggregate fair value exceeded the unpaid principal balances by \$0.1 million, \$0.3 million and \$0.6 million as of March 31, 2010, December 31, 2009 and March 31, 2009, respectively.

*Finance Leases Held for Sale*

In June 2009, Old National transferred \$370.2 million of leases to held for sale status. During the third quarter, \$258.0 million of these leases were sold at a price above par; however the transaction resulted in a loss of \$1.4 million after transaction fees. Approximately \$46.0 million of the remaining leases were transferred from held for sale back to the loan portfolio at the lower of cost or market in the third quarter of 2009 and approximately \$0.5 million of the remaining leases were transferred from held for sale back to the loan portfolio at the lower of cost or market in the first quarter of 2010. Approximately \$52.2 million of finance leases remained available for sale at March 31, 2010. The leases held for sale have maturities ranging from 1.3 years to 17 years and interest rates ranging from 3.76% to 9.73%. All of the leases held for sale are to municipalities, with various types of equipment securing the leases, and all of the leases are current.

*Commercial and Commercial Real Estate Loans*

Commercial and commercial real estate loans are the second largest classification within earning assets, representing 32.2% of earning assets at March 31, 2010, a decrease from 39.1% at March 31, 2009, and a decrease from 34.3% at December 31, 2009. At March 31, 2010, commercial and commercial real estate loans were \$2.267 billion, a decrease of \$675.8 million since March 31, 2009, and a decrease of \$82.6 million since December 31, 2009. A portion of the decrease relates to the \$370.2 million of finance leases which were moved to held for sale status during 2009, of which \$258.0 million were sold in the third quarter of 2009. In addition, weak loan demand in our markets continues to affect loan growth. Our conservative underwriting standards have also contributed to slower loan growth. We continue to be cautious towards the real estate market in an effort to lower credit risk.

*Consumer Loans*

At March 31, 2010, consumer loans, including automobile loans, personal and home equity loans and lines of credit, decreased \$145.2 million or 12.2% compared to March 31, 2009, and decreased \$37.5 million or, annualized, 13.9% since December 31, 2009. Payments on existing loans have more than offset new loan production.

*Residential Real Estate Loans*

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

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At March 31, 2010, residential real estate loans held in our loan portfolio were \$403.0 million, a decrease of \$0.4 million, or 0.4% annualized, from December 31, 2009 and a decrease of \$85.5 million, or 17.5%, from March 31, 2009. New loan production was more than offset by payments on existing loans.

**Goodwill and Other Intangible Assets**

Goodwill and other intangible assets at March 31, 2010, totaled \$198.6 million, a decrease of \$7.0 million compared to \$205.6 million at March 31, 2009, and a decrease of \$1.6 million compared to \$200.2 million at December 31, 2009. During the first quarter of 2009, we recorded \$19.8 million of goodwill and other intangible assets associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which is included in the Community Banking column for segment reporting. During the fourth quarter of 2009 we recorded \$0.5 million of impairment of intangibles due to the loss of an insurance client at one of our insurance subsidiaries. The remaining decreases were the result of standard amortization expense related to the other intangible assets.

**Other Assets**

Other assets have decreased \$20.7 million, or 8.9%, since March 31, 2009, primarily as a result of a decrease in various receivable balances associated with the acquisition of the branch banking network of Citizens Financial Group and fluctuations in the fair value of derivative financial instruments. Included in other assets at March 31, 2010 is our prepaid FDIC assessment. In the fourth quarter of 2009, the FDIC announced that it would require insured institutions to prepay their estimated 2010, 2011 and 2012 assessments in December 2009. As of March 31, 2010, our prepaid assessment was \$28.6 million and will be expensed over the next three years as the actual FDIC assessments are determined.

**Funding**

Total funding, comprised of deposits and wholesale borrowings, was \$6.750 billion at March 31, 2010, a decrease of 9.9% from \$7.492 billion at March 31, 2009, and an annualized decrease of 10.6% from \$6.934 billion at December 31, 2009. Included in total funding were deposits of \$5.691 billion at March 31, 2010, a decrease of \$163.2 million, or 2.8%, compared to March 31, 2009, and a decrease of \$212.0 million compared to December 31, 2009. In 2009, we called \$81.0 million of high cost brokered certificates of deposit and \$70.0 million of retail certificates of deposit. Noninterest-bearing deposits increased 13.5%, or \$140.5 million, compared to March 31, 2009. Time deposits decreased 12.5%, or \$264.2 million, while money market deposits decreased 27.0%, or \$140.9 million, compared to March 31, 2009. Savings deposits increased 13.8%, or \$126.4 million, while NOW deposits decreased 2.0%, or \$25.0 million, compared to March 31, 2009. Year over year, we have experienced an increase in noninterest-bearing demand deposits.

Effective January 1, 2008, we elected the fair value option under FASB ASC 825-10 (SFAS No. 159) prospectively for certain retail certificates of deposit. The carrying value of these retail certificates of deposit was \$0, \$0 and \$6.0 million as of March 31, 2010, December 31, 2009 and March 31, 2009, respectively. The carrying value at March 31, 2009 was comprised of a contractual balance of \$5.9 million and \$0.1 million of fair value adjustments. We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At March 31, 2010, wholesale borrowings, including short-term borrowings and other borrowings, decreased \$578.7 million, or 35.3%, from March 31, 2009 and increased \$28.2 million, or 10.9%, annualized, from December 31, 2009, respectively. Wholesale funding as a percentage of total funding was 15.7% at March 31, 2010, compared to 21.9% at March 31, 2009, and 14.9% at December 31, 2009. Short-term borrowings have decreased \$469.1 million since March 31, 2009 while long-term borrowings have decreased \$109.6 million since March 31, 2009. The public offering of common stock, funds received in the Citizens Financial branch acquisition and proceeds from our finance lease sale have all contributed to less reliance on wholesale funding. During 2009, \$130.0 million of FHLB advances were prepaid.

**Accrued expenses and other liabilities**

Accrued expenses and other liabilities have decreased \$19.6 million, or 8.4%, since March 31, 2009, primarily as a result of fluctuations in the fair value of derivative financial instruments.



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

Shareholders' equity totaled \$855.5 million at March 31, 2010, compared to \$631.8 million at March 31, 2009, and \$843.8 million at December 31, 2009. The March 31, 2010 and December 31, 2009 balances include approximately \$195.7 million, net of issuance costs, from a public offering of 20.7 million shares of common stock that occurred late in the third quarter of 2009.

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

The Series T Preferred Stock qualified as Tier 1 capital and the Treasury Department was entitled to cumulative dividends at a rate of 5% per year for the first five years, and 9% per year thereafter. The Series T Preferred Stock had priority in the payment of dividends over any cash dividends paid to common stockholders. The adoption of ARRA permitted Old National to redeem the Series T Preferred Stock without penalty and without the need to raise new capital, subject to the Treasury's consultation with Old National's regulatory agency. All of the Series T Preferred Stock sold to the Treasury was repurchased by Old National on March 31, 2009.

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

We paid cash dividends of \$0.07 per share for the three months ended March 31, 2010, which reduced equity by \$6.1 million. We paid cash dividends of \$0.23 per share for the three months ended March 31, 2009, which reduced equity by \$15.3 million. We also accrued dividends on the preferred shares for the three months ended March 31, 2009, which reduced equity by \$1.2 million. We repurchased shares of our stock, reducing shareholders' equity by \$0.5 million during the three months ended March 31, 2010, and \$0.3 million during the three months ended March 31, 2009. The repurchases related to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by \$7.0 million during the three months ended March 31, 2010, and increased equity by \$4.9 million during the three months ended March 31, 2009. Shares issued for reinvested dividends, stock options, restricted stock and stock compensation plans increased shareholders' equity by \$0.6 million during the three months ended March 31, 2010, compared to \$2.3 million during the three months ended March 31, 2009.

**Capital Adequacy**

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. At March 31, 2010, Old National and its bank subsidiary exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory definition. To be categorized as well-capitalized, the bank subsidiary must maintain at least a total risk-based capital ratio of 10.0%, a Tier 1 risk-based capital ratio of 6.0% and a Tier 1 leverage ratio of 5.0%. Regulatory capital ratios have increased primarily due to the public offering of common stock that raised approximately \$195.7 million, net of issuance costs, during the third quarter of 2009.



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As of March 31, 2010, Old National's consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

|   | <b>Regulatory</b> |                  |             |                 |
|---|-------------------|------------------|-------------|-----------------|
|   | <b>Guidelines</b> | <b>March 31,</b> |             | <b>December</b> |
|   | <b>Minimum</b>    | <b>2010</b>      | <b>2009</b> | <b>31,</b>      |
|   |                   |                  |             | <b>2009</b>     |
| <b>Risk-based capital:</b>                          |                   |                  |             |                 |
| Tier 1 capital to total avg assets (leverage ratio) | 4.00%             | <b>9.44%</b>     | 7.30%       | 9.51%           |
| Tier 1 capital to risk-adjusted total assets        | 4.00              | <b>14.23</b>     | 9.89        | 14.25           |
| Total capital to risk-adjusted total assets         | 8.00              | <b>16.08</b>     | 12.20       | 16.09           |
| Shareholders' equity to assets                      | N/A               | <b>10.94</b>     | 7.56        | 10.54           |

**RISK MANAGEMENT****Overview**

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

**Credit Risk**

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

**Investment Activities**

Within our securities portfolio, the non-agency collateralized mortgage obligations represent the greatest exposure to the current instability in the residential real estate and credit markets. At March 31, 2010, we had non-agency collateralized mortgage obligations of \$165.4 million or approximately 6.6% of the available-for-sale securities portfolio. The net unrealized loss on these securities at March 31, 2010, was approximately \$40.7 million.

We expect conditions in the overall residential real estate market to remain uncertain for the foreseeable future.

Deterioration in the performance of the underlying loan collateral could result in deterioration in the performance of our asset-backed securities. Ten of these securities were rated below investment grade as of March 31, 2010. During the first quarter of 2010, we experienced \$0.6 million of other-than-temporary-impairment on six of these securities, of which \$0.5 million was recorded as a credit loss in earnings and \$0.1 million is included in other comprehensive income. During 2009, we experienced \$39.4 million of other-than-temporary-impairment on these ten securities, of which \$4.4 million was recorded as a credit loss in earnings and \$35.0 million was included in other comprehensive income.

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 March 31, 2010, we had pooled trust preferred securities with a fair value of approximately \$11.7 million, or 0.5% of the available-for-sale securities portfolio. During the first three months of 2010, we experienced no other-than-temporary-impairment for these securities. These securities remained classified as available-for-sale and at March 31, 2010, the unrealized loss on our pooled trust preferred securities was approximately \$16.8 million. During 2009, six of these securities experienced \$28.7 million of other-than-temporary-impairment, of which \$20.4 million was recorded as a credit loss in earnings and \$8.3 million was included in other comprehensive income.

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

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**Counterparty Exposure**

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation in a financial transaction. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National's net counterparty exposure was an asset of \$145.1 million at March 31, 2010.

**Lending Activities**

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

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. At March 31, 2010, we had no concentration of loans in any single industry exceeding 10% of our portfolio and had no exposure to foreign borrowers or lesser-developed countries. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Illinois and Kentucky. We continue to be affected by weakness in the economy of our principal markets. Management expects that trends in under-performing, criticized and classified loans will be influenced by the degree to which the economy strengthens or weakens.

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Summary of under-performing, criticized and classified assets:

| (dollars in thousands)  | March 31,         |            | December    |
|---|-------------------|------------|-------------|
|   | 2010              | 2009       | 31,<br>2009 |
| Nonaccrual loans  |                   |            |             |
| Commercial and commercial real estate   | \$ 50,174         | \$ 65,801  | \$ 49,111   |
| Residential real estate   | 9,416             | 5,458      | 9,621       |
| Consumer  | 8,554             | 6,147      | 8,284       |
| <b>Total nonaccrual loans</b>   | <b>68,144</b>     | 77,406     | 67,016      |
| Past due loans (90 days or more and still accruing)   |                   |            |             |
| Commercial and commercial real estate   | 1,063             | 1,303      | 1,826       |
| Residential real estate   |                   | 13         |             |
| Consumer  | 251               | 1,119      | 1,675       |
| <b>Total past due loans</b>   | <b>1,314</b>      | 2,435      | 3,501       |
| Foreclosed properties   | 9,606             | 6,864      | 8,149       |
| <b>Total under-performing assets</b>  | <b>\$ 79,064</b>  | \$ 86,705  | \$ 78,666   |
| Classified loans (includes nonaccrual, renegotiated, past due<br>90 days and other problem loans) | \$ 160,479        | \$ 199,750 | \$ 157,063  |
| Other classified assets (3)   | 158,483           | 96,546     | 161,160     |
| Criticized loans  | 104,861           | 86,587     | 103,512     |
| <b>Total criticized and classified assets</b>   | <b>\$ 423,823</b> | \$ 382,883 | \$ 421,735  |
| <b>Asset Quality Ratios:</b>  |                   |            |             |
| Non-performing loans/total loans (1) (2)  | 1.81%             | 1.67%      | 1.71%       |
| Under-performing assets/total loans and foreclosed properties<br>(1)                              | 2.09              | 1.87       | 2.01        |
| Under-performing assets/total assets  | 1.01              | 1.04       | 0.98        |
| Allowance for loan losses/non-performing loans  | 105.80            | 92.73      | 103.78      |

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

(2) Non-performing loans include nonaccrual and renegotiated loans.

(3) Includes 9 pooled trust preferred

securities, 10  
non-agency  
mortgage-backed  
securities and 1  
corporate security  
at March 31,  
2010.

Loan charge-offs, net of recoveries, totaled \$6.7 million for the three months ended March 31, 2010, a decrease of \$5.9 million from the three months ended March 31, 2009. Annualized, net charge-offs to average loans were 0.70% for the three months ended March 31, 2010, as compared to 1.07% for the three months ended March 31, 2009.

Under-performing assets totaled \$79.1 million at March 31, 2010, a decrease of \$7.6 million compared to \$86.7 million at March 31, 2009, and an increase of \$0.4 million compared to \$78.7 million at December 31, 2009. As a percent of total loans and foreclosed properties, under-performing assets at March 31, 2010, were 2.09%, an increase from the March 31, 2009 ratio of 1.87% and an increase from the December 31, 2009 ratio of 2.01%. Nonaccrual loans were \$68.1 million at March 31, 2010, compared to \$77.4 million at March 31, 2009, and \$67.0 million at December 31, 2009.

From time to time, Old National may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. Loans modified in a troubled debt restructuring are placed on nonaccrual status until the Company determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. At March 31, 2010, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled \$6.8 million. At December 31, 2009, loans modified in a troubled debt restructuring, which were included in nonaccrual loans, totaled \$10.0 million. Management will continue its efforts to reduce the level of under-performing loans and will consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses.

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Total classified and criticized assets were \$423.8 million at March 31, 2010, an increase of \$40.9 million from March 31, 2009, and an increase of \$2.1 million from December 31, 2009. Other classified assets include \$158.5 million, \$96.5 million and \$161.2 million of investment securities that fell below investment grade rating at March 31, 2010, March 31, 2009 and December 31, 2009, respectively.

*Allowance for Loan Losses and Reserve for Unfunded Commitments*

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The determination of the allowance is based upon the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events and regulatory guidance. At March 31, 2010, the allowance for loan losses was \$72.1 million, an increase of \$0.3 million compared to \$71.8 million at March 31, 2009, and an increase of \$2.6 million compared to \$69.5 million at December 31, 2009. An increase of approximately \$3.9 million in general allocation related to credit deterioration primarily in the commercial loan portfolio, offset by a decrease in specific loan allocations of \$3.6 million in the commercial portfolio, were the primary reasons for the increase in the allowance from March 31, 2009 to March 31, 2010. As a percentage of total loans excluding loans and leases held for sale, the allowance was 1.94% at March 31, 2010, compared to 1.55% at March 31, 2009, and 1.81% at December 31, 2009. The provision for loan losses for the three months ended March 31, 2010, amounted to \$9.3 million compared to \$17.3 million for the three months ended March 31, 2009. The lower provision in 2010 is primarily attributable to a decrease in net charge-offs combined with a decrease in nonaccrual loans at March 31, 2010 compared to March 31, 2009.

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. In accordance with generally accepted accounting principles, the \$4.7 million reserve for unfunded loan commitments is classified as a liability account on the balance sheet. The reserve for unfunded loan commitments was \$5.5 million at December 31, 2009. The decrease from December 31, 2009 is the result of a reduction in unfunded commitment exposure due to improved credit quality.

**Market Risk**

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

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

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

understand its overall sensitivity to market interest rate changes.

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Old National's Board of Directors, through its Funds Management Committee, monitors our interest rate risk. Policy guidelines, in addition to March 31, 2010 and 2009 results are as follows:

**Net Interest Income 12 Month Policies****Interest Rate Change in Basis Points (bp)**

|             | <b>Down 300</b> | <b>Down 200</b> | <b>Down 100</b> | <b>Up 100</b> | <b>Up 200</b> | <b>Up 300</b> |
|-------------|-----------------|-----------------|-----------------|---------------|---------------|---------------|
| Green Zone  | -12.00%         | -6.50%          | -3.00%          | -3.00%        | -6.50%        | -12.00%       |
|             | -12.00% to      | -6.50% to       | -3.00% to       | -3.00% to     | -6.50% to     | -12.00% to    |
| Yellow Zone | -15.00%         | -8.50%          | -4.00%          | -4.00%        | -8.50%        | -15.00%       |
| Red Zone    | -15.00%         | -8.50%          | -4.00%          | -4.00%        | -8.50%        | -15.00%       |
| 3/31/2010   | N/A             | N/A             | N/A             | <b>1.80%</b>  | <b>1.49%</b>  | <b>0.71%</b>  |
| 3/31/2009   | N/A             | N/A             | N/A             | 3.37%         | 4.01%         | 3.03%         |

**Net Interest Income 24 Month Cumulative Policies****Interest Rate Change in Basis Points (bp)**

|             | <b>Down 300</b> | <b>Down 200</b> | <b>Down 100</b> | <b>Up 100</b> | <b>Up 200</b> | <b>Up 300</b> |
|-------------|-----------------|-----------------|-----------------|---------------|---------------|---------------|
| Green Zone  | -12.00%         | -6.50%          | -3.00%          | -3.00%        | -6.50%        | -12.00%       |
|             | -12.00% to      | -6.50% to       | -3.00% to       | -3.00% to     | -6.50% to     | -12.00% to    |
| Yellow Zone | -15.00%         | -8.50%          | -4.00%          | -4.00%        | -8.50%        | -15.00%       |
| Red Zone    | -15.00%         | -8.50%          | -4.00%          | -4.00%        | -8.50%        | -15.00%       |
| 3/31/2010   | N/A             | N/A             | N/A             | <b>5.23%</b>  | <b>5.48%</b>  | <b>4.86%</b>  |
| 3/31/2009   | N/A             | N/A             | N/A             | 4.47%         | 5.34%         | 4.40%         |

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

|             | <b>Down 300</b> | <b>Down 200</b> | <b>Down 100</b> | <b>Up 100</b> | <b>Up 200</b> | <b>Up 300</b>  |
|-------------|-----------------|-----------------|-----------------|---------------|---------------|----------------|
| Green Zone  | -22.00%         | -12.00%         | -5.00%          | -5.00%        | -12.00%       | -22.00%        |
|             | -22.00% to      | -12.00% to      | -5.00% to       | -5.00% to     | -12.00% to    | -22.00% to     |
| Yellow Zone | -30.00%         | -17.00%         | -7.50%          | -7.50%        | -17.00%       | -30.00%        |
| Red Zone    | -30.00%         | -17.00%         | -7.50%          | -7.50%        | -17.00%       | -30.00%        |
| 3/31/2010   | N/A             | N/A             | N/A             | <b>-3.05%</b> | <b>-9.73%</b> | <b>-16.26%</b> |
| 3/31/2009   | N/A             | N/A             | N/A             | -4.74%        | -15.38%       | -25.43%        |

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

Modeling for the Down 100 Basis Points, Down 200 Basis Points, and Down 300 Basis Points scenarios for both the Net Interest Income at Risk and Economic Value of Equity are not applicable in the current rate environment because

the scenarios floor at Zero before absorbing the full 100, 200, and 300 basis point drop, respectively. At March 31, 2010, modeling indicated Old National's Net Interest Income at Risk values were positive for Up 100, Up 200 and Up 300 scenarios for both the 12-month and 24-month Net Interest Income at Risk. Positive results indicate that net interest income increases relative to net interest income modeled using interest rates as of March 31, 2010.



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At March 31, 2010, modeling indicated that Old National was within the green zone policy limit for the Up 100, Up 200, and Up 300 Economic Value of Equity Scenarios, which is considered normal and acceptable for Economic Value of Equity scenarios. Old National's Economic Value of Equity (EVE) scenarios indicated relatively less negative changes to economic value in rising interest rate scenarios at March 31, 2010 compared to March 31, 2009. These changes in EVE modeling results were primarily driven by a mix change in its interest earning assets. The loan portfolio as a percent of interest earning assets decreased and the investment portfolio as a percent of interest earning assets increased at March 31, 2010 in comparison to March 31, 2009.

In addition to policy-defined scenarios, Old National models other scenarios to measure interest rate risk. For example, the company models a yield curve based on a 24-month forward curve. The forward curve represents the market's expectations of future interest rates. As of March 31, 2010, Old National's 24 month cumulative Net Interest Income at Risk for the scenario resulted in a 4.35% increase in net interest income over an unchanged interest rate curve. In addition, Old National models a ramp scenario where current interest rates are increased 25 basis points each quarter over a 12 month timeframe. As of March 31, 2010, Old National's 24 month cumulative Net Interest Income at Risk for this scenario resulted in a 2.71% increase in net interest income over an unchanged interest rate curve. We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. Our derivatives had an estimated fair value gain of \$2.7 million at March 31, 2010, compared to an estimated fair value gain of \$0.4 million at December 31, 2009. In addition, the notional amount of derivatives decreased by \$93.0 million from 2009. See Note 15 to the consolidated financial statements for further discussion of derivative financial instruments.

**Liquidity Risk**

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

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

Our ability to acquire funding at competitive prices is influenced by rating agencies' views of our credit quality, liquidity, capital and earnings. All of the rating agencies place us in an investment grade that indicates a low risk of default. 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 12, 2010

Standard and Poor's has issued unsolicited ratings with stable outlook as of November 16, 2009

Dominion Bond Rating Services has issued a stable outlook as of June 18, 2009

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

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The senior debt ratings of Old National and Old National Bank at March 31, 2010, are shown in the following table.

**SENIOR DEBT RATINGS**

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

N/A = not applicable

As of March 31, 2010, Old National Bank had the capacity to borrow \$767.7 million from the Federal Reserve Bank's discount window. Old National Bank is also a member of the Federal Home Loan Bank (FHLB) of Indianapolis, which provides a source of funding through FHLB advances. Old National Bank maintains relationships in capital markets with brokers and dealers to issue certificates of deposits and short-term and medium-term bank notes as well. The Parent Company has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. The Parent Company obtains funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt markets. At March 31, 2010, the Parent Company's other borrowings outstanding remained unchanged at \$157.3 million compared with December 31, 2009. There is \$50.0 million Parent Company debt scheduled to mature within the next 12 months. During the second quarter of 2009, Old National entered into a \$30 million revolving credit facility at the parent level. The facility had an interest rate of LIBOR plus 2.00% and a maturity of 364 days. There was no amount outstanding as of March 31, 2010. The facility will mature in April 2010 and Old National does not plan to renew the facility. Old National raised approximately \$195.7 million, net of issuance costs, from a public offering of 20.7 million shares of common stock that occurred late in the third quarter of 2009.

Old National agreed to participate in the CPP for healthy financial institutions during fourth quarter 2008. Under the program, Old National sold Series T Preferred Stock and Warrants valued at \$100 million to the Treasury Department. As of March 31, 2009, Old National repurchased all of the \$100 million of Series T Preferred Stock from the Treasury Department. The Warrants were repurchased on May 11, 2009, for \$1.2 million. As a result of these repurchases by Old National, the Treasury Department does not own any securities of Old National issued under the CPP.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. At December 31, 2006, the Bank Subsidiary had received regulatory approval to declare a dividend up to \$76 million in the first quarter of 2007. The Parent Company used the cash obtained from the dividend to fund its purchase of St. Joseph Capital Corporation during the first quarter of 2007 and during the first quarter of 2009 received a \$40 million dividend to repurchase the \$100 million of non-voting preferred shares from the Treasury. As a result of 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 2009 and currently.

**OFF-BALANCE SHEET ARRANGEMENTS**

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of our customers. Our banking affiliates have entered into various agreements to extend credit, including loan commitments of \$1.073 billion and standby letters of credit of \$105.3 million at March 31, 2010. At March 31, 2010, approximately \$1.019 billion of the loan commitments had fixed rates and \$54 million had floating rates, with the fixed rates ranging from 0% to 18%. At

December 31, 2009, loan commitments were \$1.038 billion and standby letters of credit were \$103.2 million. The term of these off-balance sheet arrangements is typically one year or less.

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During the second quarter of 2007, we entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of \$9.3 million at March 31, 2010.

**CONTRACTUAL OBLIGATIONS**

The following table presents our significant fixed and determinable contractual obligations at March 31, 2010:

**CONTRACTUAL OBLIGATIONS**

| (dollars in thousands)   | Payments Due In         |                       |                        |                    | Total        |
|--|-------------------------|-----------------------|------------------------|--------------------|--------------|
|  | One Year<br>or Less (A) | One to<br>Three Years | Three to<br>Five Years | Over<br>Five Years |              |
| Deposits without stated maturity IRAs, consumer and brokered certificates of deposit | \$ 3,839,395            | \$                    | \$                     | \$                 | \$ 3,839,395 |
| Short-term borrowings  | 790,413                 | 699,032               | 228,367                | 134,285            | 1,852,097    |
| Other borrowings   | 357,983                 |                       |                        |                    | 357,983      |
| Operating leases   | 74,033                  | 325,734               | 127,059                | 173,557            | 700,383      |
|  | 25,375                  | 63,821                | 57,170                 | 307,097            | 453,463      |

(A) For the remaining nine months of fiscal 2010.

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

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

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

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

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009. 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.

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.



**Table of Contents****Goodwill and Intangibles**

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

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

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

**Allowance for Loan Losses**

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

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

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

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

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

Management's analysis of probable losses in the portfolio at March 31, 2010, resulted in a range for allowance for loan losses of \$6.8 million with the potential effect to net income ranging from a decrease of \$0.8 million to an increase of \$3.7 million. These sensitivities are hypothetical and are not intended to represent actual results.

**Derivative Financial Instruments**

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

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

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

**Income Taxes**

**Description.** We are subject to the income tax laws of the U.S., its states and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate. 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 14 to the Consolidated Financial Statements for a further description of our provision and related income tax assets and liabilities.



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

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

## Valuation of Securities

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

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

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

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

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

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**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, and expectations about performance as well as economic and market conditions and trends.

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

- economic, market, operational, liquidity, credit and interest rate risks associated with our business;

- economic conditions generally and in the financial services industry;

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

- our ability to achieve loan and deposit growth;

- volatility and direction of market interest rates;

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

- our ability to execute our business plan;

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

- changes in the securities markets; and

- changes in fiscal, monetary and tax policies.

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

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

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

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

Limitations on the Effectiveness of Controls. Management, including the principal executive officer and principal financial officer, does not expect that Old National's disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that 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.

**Table of Contents****PART II****OTHER INFORMATION****ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in the Risk Factors section of the Company's annual report on Form 10-K for the year ended December 31, 2009.

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

| Period                   | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Total Number<br>of Shares  | Maximum<br>Number of<br>Shares that May<br>Yet<br>Be Purchased<br>Under<br>the Plans or<br>Programs |
|--------------------------|---|---------------------------------------|--|---|
|                          |   |                                       | Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans<br>or Programs |   |
| 01/01/10 - 01/31/10      |   | \$                                    |  |   |
| 02/01/10 - 02/28/10      | 40,134                                    | 11.78                                 | 40,134   |   |
| 03/01/10 - 03/31/10      |   |                                       |  |   |
| Quarter-to-date 03/31/10 | 40,134                                    | \$ 11.78                              | 40,134   |   |

There are no Board approved repurchase plans or programs for the repurchase of stock as of March 31, 2010, except for those associated with employee share-based incentive programs. In the first quarter of 2010, 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). |
| 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).  |

- 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).

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 4.2                | Form of Indenture between Old National and J.P. Morgan Trust Company, National Association (as successor to Bank One, NA), as trustee (incorporated by reference to Exhibit 4.1 to Old National's Registration Statement on Form S-3, Registration No. 333-87573, filed with the Securities and Exchange Commission on September 22, 1999).                          |
| 4.3                | Rights Agreement, dated March 1, 1990, as amended on February 29, 2000, between Old National Bancorp and Old National Bank, as trustee (incorporated by reference to Old National's Form 8-A, dated March 1, 2000).  |
| 4.4                | First Indenture Supplement dated as of May 20, 2005, between Old National and J.P. Morgan Trust Company, as trustee, providing for the issuance of its 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).                        |
| 4.5                | Form of 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).   |
| 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 Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*  |

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- 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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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 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 4 <sup>th</sup> Street Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ac) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).   |
| 10.19              | 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). 8-K filed with the Securities and Exchange Commission on September 24, 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).
- 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).

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| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 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              | Form of Employment Agreement for Robert G. Jones, Daryl D. Moore, Barbara A. Murphy and Christopher A. Wolking (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 21, 2008).*   |
| 10.31              | Severance/Change in Control Agreement between Old National and Annette W. Hudgions (incorporated by reference to Exhibit 10.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 21, 2008).*   |
| 10.32              | 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).*   |
| 10.33              | 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).  |

- 10.34 Letter Agreement dated December 12, 2008 by and between Old National Bancorp and the United States Department of Treasury which includes the Securities Purchase Agreement Standard Terms (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008).
- 10.35 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).\*
- 10.36 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).\*

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.37              | Form of 2009 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Old National's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).*  |
| 10.38              | 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).*  |
| 10.39              | Purchase and Assumption Agreement dated November 24, 2008 by and among Old National Bank and RBS Citizens, National Association (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2009). |
| 10.40              | 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).   |
| 10.41              | 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).  |
| 10.42              | 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).  |
| 10.43              | 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).   |
| 10.44              | 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).  |
| 10.45              | 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).*   |
| 10.46              | 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).*   |
| 10.47              |  |

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Form of 2010 Service Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(a) of Old National's Annual Report on Form 10-K for the year ended December 31, 2009).\*

- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Management contract or compensatory plan or arrangement

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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: April 30, 2010