

OLD NATIONAL BANCORP /IN/  
Form 10-K  
February 27, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**  
Annual Report Pursuant to Section 13 or 15(d)  
Of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2011  
Commission File Number 1-15817

**OLD NATIONAL BANCORP**

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

<b>INDIANA</b> (State or other jurisdiction of incorporation or organization)	<b>35-1539838</b> (I.R.S. Employer Identification No.)
<b>One Main Street</b>  <b>Evansville, Indiana</b> (Address of principal executive offices)	<b>47708</b> (Zip Code)
<b>(812) 464-1294</b>  (Registrant's telephone number, including area code)	

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**Securities registered pursuant to Section 12(b) of the Act**

Title of Each Class	Name of each exchange on which registered
Common Stock, No Par Value	New York Stock Exchange

Preferred Stock Purchase Rights

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 (§232.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  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

The aggregate market value of the Registrant's voting common stock held by non-affiliates on June 30, 2011, was \$991,424,057 (based on the closing price on that date of \$10.80). In calculating the market value of securities held by non-affiliates of the Registrant, the Registrant has treated as securities held by affiliates as of June 30, 2011, voting stock owned of record by its directors and principal executive officers, and voting stock held by the Registrant's trust department in a fiduciary capacity for benefit of its directors and principal executive officers. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares outstanding of the Registrant's common stock, as of January 31, 2012, was 94,655,000.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 10, 2012, are incorporated by reference into Part III of this Form 10-K.



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**OLD NATIONAL BANCORP**

**2011 ANNUAL REPORT ON FORM 10-K**

**FORWARD-LOOKING STATEMENTS**

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

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

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

economic conditions generally and in the financial services industry;

expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;

unexpected difficulties and losses related to FDIC-assisted acquisitions, including those resulting from our loss-sharing arrangements with the FDIC;

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

our ability to achieve loan and deposit growth;

volatility and direction of market interest rates;

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

our ability to execute our business plan;

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

changes in the securities markets; and

changes in fiscal, monetary and tax policies.

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

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**PART I**

**ITEM 1. BUSINESS**

**GENERAL**

Old National is a financial holding company incorporated in the State of Indiana and maintains its principal executive office in Evansville, Indiana. We, through our wholly owned banking subsidiary, provide a wide range of services, including commercial and consumer loan and depository services, investment and brokerage services, lease financing and other traditional banking services. Through our non-bank affiliates, we provide services to supplement the banking business including fiduciary and wealth management services, insurance and other financial services. As of December 31, 2011, we employed 2,551 full-time equivalent associates.

**COMPANY PROFILE**

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

**OPERATING SEGMENTS**

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

**Community Banking Segment**

The community banking segment operates through Old National Bank, and has traditionally been the most significant contributor to our revenue and earnings. The primary goal of the community banking segment is to provide products and services that address clients' needs and help clients reach their financial goals by offering a broad array of quality services. Our financial centers focus on convenience factors such as location, space for private consultations and quick client access to routine transactions.

As of December 31, 2011, Old National Bank operated 183 banking financial centers located primarily in Indiana, Illinois, and Kentucky. The community banking segment primarily consists of lending and depository activities along with merchant cash management, internet banking and other services relating to the general banking business. In addition, the community banking segment includes Indiana Old National Insurance Company ( IONIC ), which reinsures credit life insurance. IONIC also provides property and casualty insurance for Old National and reinsures most of the coverage with non-affiliated carriers.

*Lending Activities*

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



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### *Depository Activities*

We strive to serve individuals and commercial clients by providing depository services that fit their needs at competitive rates. We pay interest on the interest-bearing deposits and receive service fee revenue on various accounts. Deposit accounts include products such as noninterest-bearing demand, negotiable order of withdrawal ( NOW ), savings and money market, and time deposits. Debit and ATM cards provide clients with access to their accounts 24 hours a day at any ATM location. We also provide 24-hour telephone access and online banking as well as other electronic banking services.

### *Investment and Brokerage Services*

We, through a registered third party broker-dealer, provide clients with convenient and professional investment services and a variety of brokerage products. This line of business offers a full array of investment options and investment advice to its clients.

### **Treasury Segment**

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

### **Other**

The following lines of business are included in the other column for all periods reported:

#### *Wealth Management*

Fiduciary and trust services targeted at high net worth individuals are offered through an affiliate trust company under the business name of Old National Trust Company.

#### *Insurance Agency Services*

Through our insurance agency subsidiaries, we offer full-service insurance brokerage services including commercial property and casualty, surety, loss control services, employee benefits consulting and administration, and personal insurance. These subsidiaries are insurance agencies that offer products that are issued and underwritten by various insurance companies not affiliated with us.

Additional information about our business segments is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 23 to the consolidated financial statements.

## **MARKET AREA**

We own the largest Indiana-based bank and one of the largest independent insurance agencies headquartered in Indiana. Operating from a home base in Evansville, Indiana, we have continued to grow our footprint in Indiana and Kentucky with continued expansion in the attractive Louisville, Indianapolis and Lafayette markets. In February 2007, we expanded into Northern Indiana by acquiring St. Joseph Capital Corporation, which had banking offices in Mishawaka and Elkhart, Indiana. In March 2009, we completed the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which consisted of 65 branches and a training facility. The branches are located primarily in the Indianapolis area. On January 1, 2011, we closed on our acquisition of Monroe Bancorp, strengthening our presence in Bloomington, Indiana and the central and south central Indiana markets. On July 29, 2011, we acquired the banking operations of Integra Bank N.A. in an FDIC-assisted transaction. Integra Bank was a full service community bank headquartered in Evansville, Indiana that operated 52 branch locations, primarily in southwest Indiana, southeastern Illinois and western Kentucky.

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The following table reflects the market locations where we have a significant share of the deposit market. The market share data is by metropolitan statistical area. The Evansville, Indiana data includes branches in Henderson, Kentucky. The data includes deposit information for Integra Bank, which was acquired on July 29, 2011.

**Old National Deposit Market Share and Number of Branch Locations****Deposits as of June 30, 2011**

<b>Market Location</b>	<b>September 30, Number of Branches</b>	<b>September 30, Deposit Market Share Rank</b>
Evansville, Indiana	23	1st
Bloomington, Indiana	9	1st
Vincennes, Indiana	4	1st
Central City, Kentucky	4	1st
Danville, Indiana	3	1st
Madisonville, Kentucky	3	1st
Washington, Indiana	5	1st
Jaspar, Indiana	8	2nd
Terre Haute, Indiana	6	2nd
Muncie, Indiana	6	3rd
Carbondale, Illinois	4	3rd
Mt. Vernon, Illinois	1	3rd

Source: FDIC

**ACQUISITION AND DIVESTITURE STRATEGY**

Since the formation of Old National in 1982, we have acquired more than 40 financial institutions and financial services companies. Future acquisitions and divestitures will be driven by a disciplined financial process and will be consistent with the existing focus on community banking, client relationships and consistent quality earnings. Targeted geographic markets for acquisitions include mid-size markets within or near our existing franchise with average to above average growth rates.

As with previous acquisitions, the consideration paid by us will be in the form of cash, debt or Old National stock. The amount and structure of such consideration is based on reasonable growth and cost savings assumptions and a thorough analysis of the impact on both long- and short-term financial results.

On January 1, 2011, we acquired Monroe Bancorp in an all stock transaction. Monroe Bancorp was headquartered in Bloomington, Indiana and had 15 banking centers. Pursuant to the merger agreement, the shareholders of Monroe Bancorp received approximately 7.6 million shares of Old National Bancorp stock valued at approximately \$90.1 million. On January 1, 2011, unaudited financial statements of Monroe Bancorp showed assets of \$808.1 million, which included \$509.6 million of loans, \$166.4 million of securities and \$711.5 million of deposits. The acquisition strengthens our deposit market share in the Bloomington, Indiana market and improved our deposit market share rank to first place in 2011.

On June 1, 2011, Old National Bancorp's wholly owned trust subsidiary, American National Trust and Investment Management Company d/b/a Old National Trust Company ( ONTC ), acquired the trust business of Integra Bank, N.A. As of the closing, the trust business had approximately \$328 million in assets under management. Old National paid Integra \$1.3 million in an all cash transaction. At December 31, 2011, total assets under management by Old National's Wealth Management division were approximately \$4.2 billion.

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. ( Integra ) in an FDIC-assisted transaction. Integra was a full service community bank headquartered in Evansville, Indiana that operated 52 branch locations. As part of the purchase and assumption agreement, the Company and the FDIC entered into loss sharing agreements (each, a loss sharing agreement and collectively, the loss sharing agreements ), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), other real estate owned ( OREO ) and up to 90 days of certain accrued interest on loans. The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss



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

On January 25, 2012, Old National announced its agreement to acquire Indiana Community Bancorp in an all stock transaction. Indiana Community Bancorp is an Indiana bank holding company with Indiana Bank and Trust Company ( IBTC ) as its wholly owned subsidiary. Headquartered in Columbus, Indiana, IBTC has 17 full-service banking centers serving the South Central Indiana area and approximately \$985 million in assets. The acquisition increases Old National's position as the third largest branch network in Indiana. Pursuant to the merger agreement, the shareholders of Indiana Community Bancorp will receive 1.90 shares of Old National Bancorp common stock for each share of Indiana Community Bancorp common stock, subject to certain adjustments. The transaction is valued at approximately \$79.2 million and is expected to close in the second quarter of 2012 subject to approval by federal and state regulatory authorities.

## **COMPETITION**

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

## **SUPERVISION AND REGULATION**

Old National is subject to extensive regulation under federal and state laws. The regulatory framework is intended primarily for the protection of depositors, federal deposit insurance funds and the banking system as a whole and not for the protection of shareholders and creditors.

Significant elements of the laws and regulations applicable to Old National and its subsidiaries are described below. The description is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to Old National and its subsidiaries could have a material effect on the business of the company.

### **The Dodd-Frank Act**

On July 21, 2010, financial regulatory reform legislation entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, will:

Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining and enforcing compliance with federal consumer financial laws.

Restrict the preemption of state law by federal law and disallow subsidiaries and affiliates of national banks, such as Old National Bank, from availing themselves of such preemption.

Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, which, among other things, will require Old National to deduct, over three years beginning January 1, 2013, all trust preferred securities from Old National's Tier 1 capital.

Require the Office of the Comptroller of the Currency to seek to make its capital requirements for national banks, such as Old National Bank, countercyclical so that capital requirements increase in times of economic expansion and decrease in times of

economic contraction.

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Require financial holding companies to be well capitalized and well managed as of July 21, 2011. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the Deposit Insurance Fund ( DIF ) and increase the floor of the size of the DIF.

Impose comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself.

Require large, publicly traded bank holding companies to create a risk committee responsible for the oversight of enterprise risk management.

Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions.

Make permanent the \$250 thousand limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from \$100 thousand to \$250 thousand and provide unlimited federal deposit insurance until December 31, 2012 for noninterest bearing demand transaction accounts at all insured depository institutions.

Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction accounts as well as other accounts.

Amend the Electronic Fund Transfer Act ( EFTA ) to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Old National, its customers or the financial industry more generally. Provisions in the legislation that affect the payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. Provisions in the legislation that revoke the Tier 1 capital treatment of trust preferred securities and otherwise require revisions to the capital requirements of Old National and Old National Bank could require Old National and Old National Bank to seek other sources of capital in the future.

### Other Regulatory Agencies and Requirements

Old National is registered as a bank holding company and has elected to be a financial holding company. It is subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System ( Federal Reserve ) under the Bank Holding Company Act of 1956, as amended ( BHC Act ). The Federal Reserve has issued regulations under the BHC Act requiring a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. It is the policy of the Federal Reserve that, pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity.

The BHC Act requires the prior approval of the Federal Reserve to acquire more than a 5% voting interest of any bank or bank holding company. Additionally, the BHC Act restricts Old National's non-banking activities to those which are determined by the Federal Reserve to be closely related to banking and a proper incident thereto.

On October 26, 2001, the USA Patriot Act of 2001 was signed into law. Enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. on September 11, 2001, the Patriot Act is intended to strengthen U.S. law enforcement's and the intelligence community's

ability to work cohesively to combat terrorism on a variety of fronts. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and the statute and regulations promulgated under it impose a number of significant obligations on entities subject to its provisions, including: (a) due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons; (b) standards for verifying customer identification at account opening; (c) rules to promote cooperation among financial institutions, regulators and law enforcement

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entities in identifying parties that may be involved in terrorism or money laundering; (d) reports by non-financial trades and businesses filed with the U.S. Treasury Department's (the Treasury Department or the Treasury) Financial Crimes Enforcement Network for transactions exceeding \$10,000; and (e) filing of suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws and regulations.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become undercapitalized (as defined in FDICIA) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal bank regulatory agency.

Bank holding companies are required to comply with the Federal Reserve's risk-based capital guidelines. The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) have adopted risk-based capital ratio guidelines to which depository institutions under their respective supervision are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Old National's banking affiliate, Old National Bank, met all risk-based capital requirements of the FDIC and OCC as of December 31, 2011. For Old National's regulatory capital ratios and regulatory requirements as of December 31, 2011, see Note 21 to the consolidated financial statements.

In December 2010 and January 2011, the Basel Committee on Banking Supervision published the final texts of reforms on capital and liquidity generally referred to as Basel III. Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by United States banking regulators in developing new regulations applicable to other banks in the United States, including Old National Bank.

For banks in the United States, among the most significant provisions of Basel III concerning capital are the following:

A minimum ratio of common equity to risk-weighted assets reaching 4.5%, plus an additional 2.5% as a capital conservation buffer, by 2019 after a phase-in period.

A minimum ratio of Tier 1 capital to risk-weighted assets reaching 6.0% by 2019 after a phase-in period.

A minimum ratio of total capital to risk-weighted assets, plus the additional 2.5% capital conservation buffer, reaching 10.5% by 2019 after a phase-in period.

An additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at their discretion, with advance notice.

Restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone.

Deduction from common equity of deferred tax assets that depend on future profitability to be realized.

Increased capital requirements for counterparty credit risk relating to OTC derivatives, repos and securities financing activities.

For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement such that the instrument must be written off or converted to common equity if a trigger event occurs, either pursuant to applicable law or at the direction of the banking regulator. A trigger event is an event under which the banking entity would become nonviable without the



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write-off or conversion, or without an injection of capital from the public sector. The issuer must maintain authorization to issue the requisite shares of common equity if conversion were required.

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The Basel III provisions on liquidity include complex criteria establishing a liquidity coverage ratio ( LCR ) and a net stable funding ratio ( NSFR ). The purpose of the LCR is to ensure that a bank maintains adequate unencumbered, high quality liquid assets to meet its liquidity needs for 30 days under a severe liquidity stress scenario. The purpose of the NSFR is to promote more medium and long-term funding of assets and activities, using a one-year horizon. Although Basel III is described as a final text, it is subject to the resolution of certain issues and to further guidance and modification, as well as to adoption by United States banking regulators, including decisions as to whether and to what extent it will apply to United States banks that are not large, internationally active banks, such as Old National. In June 2011, the federal banking agencies adopted a rule applicable to only large, internationally active banks requiring their risk-based capital to meet the higher of the minimum requirements under the advanced approaches or under the risk-based capital rules generally applicable to United States banks.

Old National Bank is subject to the provisions of the National Bank Act, is supervised, regulated and examined by the OCC, and is subject to the rules and regulations of the OCC, Federal Reserve and the FDIC. A substantial portion of Old National's cash revenue is derived from dividends paid to it by Old National Bank. These dividends are subject to various legal and regulatory restrictions as summarized in Note 21 to the consolidated financial statements.

Both federal and state law extensively regulate various aspects of the banking business, such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Branching by Old National Bank is subject to the jurisdiction and requires notice to or the prior approval of the OCC.

Old National and Old National Bank are subject to the Federal Reserve Act, which restricts financial transactions between banks and affiliated companies. The statute limits credit transactions between banks, affiliated companies and its executive officers and its affiliates. The statute prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices, and restricts the types of collateral security permitted in connection with a bank's extension of credit to an affiliate. Additionally, all transactions with an affiliate must be on terms substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with nonaffiliated parties.

FDICIA accomplished a number of sweeping changes in the regulation of depository institutions, including Old National Bank. FDICIA requires, among other things, federal bank regulatory authorities to take prompt corrective action with respect to banks which do not meet minimum capital requirements. FDICIA further directs that each federal banking agency prescribe standards for depository institutions and depository institution holding companies relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, management compensation, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value of publicly traded shares and such other standards as the agency deems appropriate.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 allows for interstate banking and interstate branching without regard to whether such activity is permissible under state law. Bank holding companies may now acquire banks anywhere in the United States subject to certain state restrictions.

The Gramm-Leach-Bliley Act ( GLBA ) permits bank holding companies which have elected to become financial holding companies to engage in a substantially broader range of non-banking activities, including securities, investment advice and insurance activities, than is permissible for bank holding companies that have not elected to become financial holding companies. Old National has elected to be a financial holding company. As a result, Old National may underwrite and sell securities and insurance. It may acquire, or be acquired by, brokerage firms and insurance underwriters.

GLBA established new requirements for financial institutions to provide enhanced privacy protections to customers. In June of 2000, the Federal banking agencies jointly adopted a final regulation providing for the implementation of these protections. Financial institutions are required to provide notice to consumers which details its privacy policies and practices, describes under what conditions a financial institution may disclose nonpublic personal information about consumers to nonaffiliated third parties and provides an opt-out method which enables consumers to prevent the financial institution from disclosing customer information to nonaffiliated third parties. Financial institutions were required to be in compliance with the final regulation by July 1, 2001, and Old National was in compliance at such date and continues to be in compliance.

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In October 2008, the Emergency Economic Stabilization Act of 2008 ( EESA ) was enacted. The EESA authorized the Treasury Department to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program ( TARP ). The purpose of TARP was to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The Treasury Department allocated \$350 billion towards the TARP Capital Purchase Program ( CPP ). Under the CPP, Treasury purchased debt or equity securities from participating institutions. The TARP also included direct purchases or guarantees of troubled assets of financial institutions. Participants in the CPP are subject to executive compensation limits and are encouraged to expand their lending and mortgage loan modifications. For details regarding Old National 's former participation in TARP, refer to the Financial Condition Capital section of Item 7, Management 's Discussion and Analysis of Financial Condition and Results of Operations .

EESA also increased FDIC deposit insurance on most accounts from \$100,000 to \$250,000. The Dodd-Frank Act made permanent the \$250,000 deposit insurance limit for insured deposits.

Following a systemic risk determination, the FDIC established a Temporary Liquidity Guarantee Program ( TLGP ) on October 14, 2008. The TLGP includes the Transaction Account Guarantee Program ( TAGP ), which provided unlimited deposit insurance coverage through December 31, 2009 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. Institutions participating in the TAGP pay a 10 basis points fee (annualized) on the balance of each covered account in excess of \$250,000, while the extra deposit insurance is in place. The TAGP was extended through December 31, 2010. The enactment of the Dodd-Frank Act provides unlimited federal deposit insurance until December 31, 2012 for noninterest bearing demand transaction accounts at all insured depository institutions.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 ( ARRA ) was signed into law by President Obama. ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including Old National, until the institution has repaid the Treasury, which is now permitted under ARRA without penalty and without the need to raise new capital, subject to the Treasury 's consultation with the recipient 's appropriate regulatory agency. Old National has been a TARP recipient, but has exercised its right to repay Treasury and is no longer subject to the compensation and corporate expenditure limits imposed by ARRA on TARP recipients. For details regarding Old National 's participation in TARP, refer to the Financial Condition Capital section of Item 7, Management 's Discussion and Analysis of Financial Condition and Results of Operations .

In addition to the matters discussed above, Old National Bank is subject to additional regulation of its activities, including a variety of consumer protection regulations affecting its lending, deposit and collection activities and regulations affecting secondary mortgage market activities. The earnings of financial institutions are also affected by general economic conditions and prevailing interest rates, both domestic and foreign and by the monetary and fiscal policies of the United States government and its various agencies, particularly the Federal Reserve.

Additional legislative and administrative actions affecting the banking industry may be considered by Congress, state legislatures and various regulatory agencies, including those referred to above. It cannot be predicted with certainty whether such legislative or administrative action will be enacted or the extent to which the banking industry in general or Old National and Old National Bank in particular would be affected.

## **AVAILABLE INFORMATION**

All reports filed electronically by Old National with the Securities and Exchange Commission ( SEC ), including the annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements, other information and amendments to those reports filed (if applicable), are accessible at no

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cost on Old National's web site at [www.oldnational.com](http://www.oldnational.com). The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, and Old National's filings are accessible on the SEC's web site at [www.sec.gov](http://www.sec.gov). The public may read and copy any materials filed by Old National with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

**ITEM 1A. RISK FACTORS**

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

**Risks Related to Old National's Business**

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

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

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

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

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

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

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

Old National makes various assumptions and judgments about the collectibility of Old National's loan portfolio, including the creditworthiness of Old National's borrowers and the value of the real estate and other assets serving as collateral for the repayment of Old National's loans. Despite Old National's underwriting and monitoring practices,

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

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

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

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

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

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

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

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

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

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

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

the time and costs associated with identifying potential new markets, as well as acquisition and merger targets;

the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;

the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;

our ability to finance an acquisition and possible dilution to our existing shareholders;

the diversion of our management's attention to the negotiation of a transaction, and the integration of the operations and personnel of the combined businesses;

entry into new markets where we lack experience;

the introduction of new products and services into our business;

the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and

the risk of loss of key employees and customers.

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

loss of customers of the failed bank;

strain on management resources related to collection and management of problem loans;

problems related to integration of personnel and operating systems;

the ultimate collectibility of claims with the FDIC under the shared loss agreement are dependent upon the performance of the underlying covered assets, the passage of time and our ability to service loans in accordance with the shared loss agreement;

and

losses may exceed our estimates and move us into a tranche where we have 0% coverage under our loss sharing agreements with the FDIC.

***Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be very high.***

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our capital resources will satisfy our capital requirements for the foreseeable future. We may at some point need to raise additional capital to support continued growth or losses, both internally and through acquisitions. Any capital we obtain may result in the dilution of the interests of existing holders of our common stock.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time (which are outside our control) and on our financial condition and performance. Accordingly, we cannot make assurances of our ability to raise additional capital if needed, or if the terms will be acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired and our financial condition and liquidity could be materially and negatively affected.

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### ***Our wholesale funding sources may prove insufficient to replace deposits or support our future growth.***

As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These sources include brokered certificates of deposit, repurchase agreements, and federal funds purchased. Negative operating results or changes in industry conditions could lead to an inability to replace these additional funding sources at maturity. Our financial flexibility could be constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our results of operations and financial condition would be negatively affected.

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

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

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

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

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

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

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

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



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**Fiduciary Activity Risk Factor**

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

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

**Risks Related to the Banking Industry**

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

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

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

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

Old National's success depends, to a certain extent, upon economic or political conditions, local and national, as well as governmental monetary policies. Conditions such as recession, unemployment, changes in interest rates, inflation, money supply and other factors beyond Old National's control may adversely affect its asset quality, deposit levels and loan demand and, therefore, the Old National's earnings. Because Old National has a significant amount of commercial real estate loans, decreases in real estate values could adversely affect the value of property

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used as collateral. Adverse changes in the economy may also have a negative effect on the ability of Old National's borrowers to make timely repayments of their loans, which would have an adverse impact on Old National's earnings. In addition, substantially all of Old National's loans are to individuals and businesses in Old National's market area. Consequently, any economic decline in Old National's primary market areas which include Indiana, Kentucky and Illinois could have an adverse impact on Old National's earnings.

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

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

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

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

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

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

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

### **Risks Related to Old National's Stock**

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

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

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

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

announcements of developments related to Old National's business;

fluctuations in Old National's results of operations;

sales or purchases of substantial amounts of Old National's securities in the marketplace;

general conditions in Old National's banking niche or the worldwide economy;

a shortfall or excess in revenues or earnings compared to securities analysts' expectations;

changes in analysts' recommendations or projections; and

Old National's announcement of new acquisitions or other projects.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

As of December 31, 2011, Old National and its affiliates operated a total of 183 banking centers, loan production or other financial services offices, primarily in the states of Indiana, Illinois and Kentucky. Of these facilities, 29 were owned.

The executive offices of Old National are located at 1 Main Street, Evansville, Indiana. This building, which houses Old National's general corporate functions, is leased from an unaffiliated third party. The lease term expires December 31, 2031, and provides for the tenant's option to extend the term of the lease for four five-year periods. In addition, we lease 154 financial centers from unaffiliated third parties. The terms of these leases range from six months to twenty-four years. See Note 19 to the consolidated financial statements.

### **ITEM 3. LEGAL PROCEEDINGS**

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.

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Subject to the foregoing, Old National believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of Old National, although the outcome of such matters could be material to Old National's operating results and cash flows for a particular future period, depending on, among other things, the level of Old National's revenues or income for such period.

In November 2002, several beneficiaries of certain trusts filed a complaint against Old National and Old National Trust Company in the United States District Court for the Western District of Kentucky relating to the administration of the trusts in 1997. The complaint, as amended, alleged that Old National (through a predecessor),

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as trustee, mismanaged termination of a lease between the trusts and a tenant mining company. The complaint seeks, among other relief, unspecified damages, (costs and expenses, including attorneys' fees, and such other relief as the court might find just and proper.) On March 25, 2009, the Court granted summary judgment to Old National concluding that the plaintiffs do not have standing to sue Old National in this matter. The plaintiffs subsequently filed a motion to alter or amend the judgment with the Court. The Plaintiffs motion to alter or amend the judgment was granted by the Court on July 29, 2009, reversing the Court's March 25, 2009 Order as to standing. The July 29, 2009 Order permitted Old National to file a new motion for summary judgment with respect to issues that had not been resolved by the Court. On December 10, 2009, the Court granted Old National partial summary judgment and also granted a motion by Plaintiffs to amend their complaint. The Court's December 10, 2009 Order permitted Old National to file a new motion for summary judgment on the amended complaint. Old National filed its motion for summary judgment on January 22, 2010, which was granted in part and denied in part on August 6, 2010. Old National filed its fourth motion for summary judgment in April 2011 that has the potential to dispose of the case if granted by the Court. In addition, a mediation session was held in March 2011 and settlement discussions continued between Old National and the Plaintiffs. Settlement negotiations became meaningful in mid-August of 2011. Although Old National continues to believe that it has meritorious defenses to each of the claims in the lawsuit, given the risks and uncertainty of litigation Old National reached a tentative settlement with the plaintiffs in mid-September of 2011. As such, two million dollars was accrued in the third quarter of 2011 in anticipation of negotiating final settlement and full resolution of this matter. In the event of settlement, a portion of the anticipated settlement funds may be temporarily put in escrow to account for uncertain contingencies.

In November 2010, Old National was named in a class action lawsuit, together with other banks, challenging Old National Bank's checking account practices. The plaintiff seeks damages and other relief, including restitution. Old National believes it has meritorious defenses to the claims brought by the plaintiff. At this phase of the litigation, it is not possible for management of Old National to determine the probability of a material adverse outcome or reasonably estimate the amount of any loss. No class has yet been certified and discovery is ongoing. On December 8, 2011, the plaintiff sought leave to add additional individuals as plaintiffs. Old National has objected and the Court has not yet ruled, which has temporarily suspended action in this matter, other than the aforementioned discovery exchanges.

**ITEM 4. (REMOVED AND RESERVED)****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Old National's common stock is traded on the New York Stock Exchange ( NYSE ) under the ticker symbol ONB. The following table lists the high and low closing sales prices as reported by the NYSE, share volume and dividend data for 2011 and 2010:

	September 30, Price Per Share		September 30, Share Volume	September 30, Dividend Declared
	High	Low		
<b>2011</b>				
First Quarter	\$ 12.15	\$ 10.35	29,575,800	\$ 0.07
Second Quarter	11.33	10.16	34,157,500	0.07
Third Quarter	11.05	8.67	52,288,900	0.07
Fourth Quarter	11.99	9.05	47,713,600	0.07
<b>2010</b>				
First Quarter	\$ 12.63	\$ 11.01	40,933,700	\$ 0.07
Second Quarter	13.92	10.36	37,445,200	0.07
Third Quarter	11.05	9.16	36,704,800	0.07
Fourth Quarter	11.94	9.35	37,829,000	0.07

There were 23,447 shareholders of record as of December 31, 2011. Old National declared cash dividends of \$0.28 per share during the years ended December 31, 2011 and 2010. Old National's ability to pay cash dividends depends primarily on cash dividends received from Old National Bank. Dividend payments from Old National Bank are subject to various regulatory restrictions. See Note 21 to the consolidated financial statements for additional information.



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The following table summarizes the purchases of equity securities made by Old National during the fourth quarter of 2011:

Period	September 30, Total Number of Shares Purchased	September 30, Average Price Paid Per Share	September 30, Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	September 30, Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/11 10/31/11		\$		2,216,788
11/01/11 11/30/11				2,216,788
12/01/11 12/31/11	112,288	10.56	112,288	2,104,500
Total	112,288	\$ 10.56	112,288	2,104,500

During the fourth quarter of 2011, Old National repurchased a limited number of shares from a shareholder but did not repurchase any shares on the open market. On January 27, 2011, the Board of Directors approved the repurchase of up to 2.25 million shares of common stock over a twelve month period beginning January 27, 2011 and ending January 31, 2012.

Subsequent to year-end, the Board of Directors approved the repurchase of up to 2.0 million shares of common stock over a twelve month period that runs through January 31, 2013. On January 26, 2012, the Board of Directors also declared an increase in its quarterly common stock dividend to \$.09 per share, a 28.6% increase over the previous cash dividend level of \$.07 per share.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table contains information concerning the 2008 Equity Incentive Plan approved by security holders, as of December 31, 2011.

**2008 EQUITY COMPENSATION PLAN**

Plan Category	September 30, Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	September 30, Weighted-average exercise price of outstanding options, warrants and rights (b)	September 30, Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	5,334,957	\$ 19.69	2,505,463
Equity compensation plans not approved by security holders			
Total	5,334,957	\$ 19.69	2,505,463

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The following table compares cumulative five-year total shareholder returns, assuming reinvestment of dividends, for the Company's common stock to cumulative total returns of a broad-based equity market index and two published industry indices.

The comparison of shareholder returns (change in December year end stock price plus reinvested dividends) for each of the periods assumes that \$100 was invested on December 31, 2006, in common stock of each of the Company, the S&P Small Cap 600 Index, the NYSE Financial Index and the SNL Bank and Thrift Index with investment weighted on the basis of market capitalization.



**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

(dollars in thousands, except per share data)	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
<b>Operating Results</b>					
Net interest income	\$ 272,873	\$ 218,416	\$ 231,399	\$ 243,325	\$ 219,191
Conversion to fully taxable equivalent (1)	11,821	13,482	20,831	19,326	17,160
Net interest income tax equivalent basis	284,694	231,898	252,230	262,651	236,351
Provision for loan losses	7,473	30,781	63,280	51,464	4,118
Noninterest income	182,883	170,150	163,460	166,969	155,138
Noninterest expense	348,521	314,305	338,956	297,229	277,998
Net income available to common shareholders	72,460	38,214	9,845	62,180	74,890
<b>Common Share Data (2)</b>					
Weighted average diluted shares	94,772	86,928	71,367	65,776	65,750
Net income (diluted)	\$ 0.76	\$ 0.44	\$ 0.14	\$ 0.95	\$ 1.14
Cash dividends (3)	0.28	0.28	0.44	0.69	1.11
Common dividend payout ratio (4)	36.59	63.75	308.59	73.51	97.38
Book value at year-end	10.92	10.08	9.68	9.56	9.86
Stock price at year-end	11.65	11.89	12.43	18.16	14.96
<b>Balance Sheet Data (at December 31)</b>					
Loans (5)	\$ 4,771,731	\$ 3,747,270	\$ 3,908,276	\$ 4,777,514	\$ 4,699,356
Total assets	8,609,683	7,263,892	8,005,335	7,873,890	7,846,126
Deposits	6,611,563	5,462,925	5,903,488	5,422,287	5,663,383
Other borrowings	290,774	421,911	699,059	834,867	656,722
Shareholders' equity	1,033,556	878,805	843,826	730,865	652,881
<b>Performance Ratios</b>					
Return on average assets (ROA)	0.86%	0.50%	0.17%	0.82%	0.94%
Return on average common shareholders' equity (ROE)	7.24	4.40	1.41	9.49	11.67
Average equity to average assets	11.94	11.46	9.06	8.67	8.04
Net interest margin (6)	3.87	3.40	3.50	3.82	3.28
Efficiency ratio (7)	73.80	79.25	80.45	69.39	69.58
<b>Asset Quality (8)</b>					
Net charge-offs to average loans	0.49%	0.75%	1.40%	0.87%	0.44%
Allowance for loan losses to ending loans	1.22	1.93	1.81	1.41	1.20
Allowance for loan losses	\$ 58,060	\$ 72,309	\$ 69,548	\$ 67,087	\$ 56,463
Underperforming assets (9)	340,543	77,108	78,666	69,883	45,203
<b>Other Data</b>					
Full-time equivalent employees	2,551	2,491	2,812	2,507	2,494
Branches and financial centers	183	161	172	117	115

(1) Calculated using the federal statutory tax rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations.

(2) Diluted data assumes the exercise of stock options and the vesting of restricted stock.

(3) 2007 includes cash dividends of \$.88 paid in 2007 and cash dividends of \$.23 declared for the first quarter of 2008.

(4) Cash dividends divided by income available to common stockholders.

- (5) Includes residential loans and finance leases held for sale.
- (6) Defined as net interest income on a tax equivalent basis as a percentage of average earning assets.
- (7) Defined as noninterest expense before amortization of intangibles as a percent of fully taxable equivalent net interest income and noninterest income, excluding net gains from securities transactions. This presentation excludes intangible amortization and net securities gains, as is common in other company disclosures, and better aligns with true operating performance.
- (8) Excludes residential loans and finance leases held for sale.
- (9) Includes nonaccrual loans, renegotiated loans, loans 90 days past due still accruing and other real estate owned. Includes \$215.7 million of covered assets acquired in an FDIC assisted transaction, which are covered by loss sharing agreements with the FDIC providing for specified loss protection.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion is an analysis of our results of operations for the fiscal years ended December 31, 2011, 2010 and 2009, and financial condition as of December 31, 2011 and 2010. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business. Readers are cautioned that, by their nature, forward-looking statements are based on estimates and assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from our expectations that are expressed or implied by any forward-looking statement. The discussion in Item 1A,

Risk Factors, lists some of the factors that could cause our actual results to vary materially from those expressed or implied by any forward-looking statements, and such discussion is incorporated into this discussion by reference.

**GENERAL OVERVIEW**

Old National is a financial holding company incorporated in the State of Indiana and maintains its principal executive offices in Evansville, Indiana. Old National, through Old National Bank, provides a wide range of services, including commercial and consumer loan and depository services, lease financing and other traditional banking services. Old National also provides services to supplement the traditional banking business including fiduciary and wealth management services, investment and brokerage services, investment consulting, insurance and other financial services.

The Company's basic mission is to be THE community bank in the cities and towns it serves. The Company focuses on establishing and maintaining long-term relationships with customers, and is committed to serving the financial needs of the communities in its market area. Old National provides financial services primarily in Indiana, eastern and southeastern Illinois, and central and western Kentucky.

**CORPORATE DEVELOPMENTS IN FISCAL 2011**

Net income for 2011 was \$72.5 million, an increase of \$34.2 million from 2010. Diluted earnings per share available to common shareholders were \$0.76 per share, an increase of \$0.32 per share from 2010.

Improvement in 2011 net income was primarily due to the following:

Our acquisition of Monroe Bancorp on January 1, 2011 and our FDIC assisted acquisition of Integra Bank at July 29, 2011; and

Lower provision expense.

Other significant actions include:

Controlling expenses remained a company-wide focus throughout 2011. We still aspire to attain a 65 percent efficiency ratio by the end of 2012.

During 2011, we continued to reduce long-term debt, a more expensive source of funding. This includes the redemption of our \$150.0 million 6.75% subordinated debentures on October 15, 2011.

Subsequent to year-end, Old National announced the partnership with Indiana Community Bancorp based out of Columbus, Indiana. This acquisition will add 17 full-service financial centers and increase our presence in south central Indiana.

**BUSINESS OUTLOOK**

We believe we are in the midst of a slow, steady economic recovery that is likely to require at least another year for full stabilization to be achieved. The Federal Reserve has signaled its intention to keep both long- and short-term rates low for an indefinite period, but we still anticipate that 2012 will pose challenges for revenue growth.



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Our goals for 2012 are much the same as they were in 2011: increase revenue, reduce expenses and target partnership opportunities that align with our financial and strategic goals.

While we remain committed to the same conservative, risk-conscious approach to lending, we know how vital it is to generate new loan growth in 2012 and beyond. We believe our new partnerships, and the new client base they represent, position us well to achieve this growth.

Just as we did in 2011, we will continue to look for ways to enhance the company's efficiency ratio through process improvements, organizational streamlining and other cost reduction strategies.

We continue to target additional partnerships. We are focused on community banks in growth markets that are either within or near our existing franchise. Such strategic consolidations should improve the company's bottom line while expanding our distribution network, which helps build long-term shareholder value.

**RESULTS OF OPERATIONS**

The following table sets forth certain income statement information of Old National for the years ended December 31, 2011, 2010, and 2009:

(dollars in thousands)	September 30, 2011	September 30, 2010	September 30, 2009
<b>Income Statement Summary:</b>			
Net interest income	\$ 272,873	\$ 218,416	\$ 231,399
Provision for loan losses	7,473	30,781	63,280
Noninterest income	182,883	170,150	163,460
Noninterest expense	348,521	314,305	338,956
<b>Other Data:</b>			
Return on average common equity	7.24%	4.40%	1.41%
Efficiency ratio (1)	73.80%	79.25%	80.45%
Tier 1 leverage ratio	8.29%	9.01%	9.51%
Net charge-offs to average loans	0.49%	0.75%	1.40%

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

**Comparison of Fiscal Years 2011 and 2010****Net Interest Income**

Net interest income is the most significant component of our earnings, comprising over 59% of 2011 revenues. 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. Funding from client deposits generally cost less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

Net interest income is the excess of interest received from earning assets over interest paid on interest-bearing liabilities. For analytical purposes, net interest income is also presented in the table that follows, adjusted to a taxable equivalent basis to reflect what our tax-exempt assets would need to yield in order to achieve the same after-tax yield as a taxable asset. We used the federal statutory tax rate in effect of 35% for all periods

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adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations. This analysis portrays the income tax benefits associated in tax-exempt assets and helps to facilitate a comparison between taxable and tax-exempt assets.

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Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully taxable equivalent basis. Therefore, management believes these measures provide useful information for both management and investors by allowing them to make peer comparisons.

(dollars in thousands)	September 30, 2011	September 30, 2010	September 30, 2009
Net interest income	\$ 272,873	\$ 218,416	\$ 231,399
Conversion to fully taxable equivalent	11,821	13,482	20,831
<b>Net interest income taxable equivalent basis</b>	<b>\$ 284,694</b>	<b>\$ 231,898</b>	<b>\$ 252,230</b>
Average earning assets	7,359,092	6,814,607	7,207,225
Net interest margin	3.71%	3.21%	3.21%
Net interest margin taxable equivalent basis	3.87%	3.40%	3.50%

Net interest income was \$272.9 million in 2011, a 24.9% increase from the \$218.4 million reported in 2010. Taxable equivalent net interest income was \$284.7 million in 2011, a 22.8% increase from the \$231.9 million reported in 2010. The net interest margin on a fully taxable equivalent basis was 3.87% for 2011, a 47 basis point increase compared to the 3.40% reported in 2010. The increase in both net interest income and net interest margin is primarily due to the acquisition of Monroe Bancorp on January 1, 2011 and Integra Bank on July 29, 2011 combined with a change in the mix of interest earning assets and interest-bearing liabilities. The accretion associated with the purchased assets benefited net interest margin by 50 basis points in 2011. We expect this benefit to decline over time. The yield on average earning assets increased 5 basis points from 4.55% to 4.60% while the cost of interest-bearing liabilities decreased 51 basis points from 1.47% to 0.96%. Average earning assets increased by \$544.5 million, or 8.0%. Average interest-bearing liabilities increased \$288.9 million, or 5.4%. The increase in average earning assets consisted of a \$692.7 million increase in loans, a \$123.3 million decrease in lower yielding investment securities and a \$24.9 million decrease in money market and other interest-earning investments. The increase in average interest-bearing liabilities consisted of a \$453.9 million increase in interest-bearing deposits, a \$35.1 million increase in short-term borrowings and a \$200.1 million decrease in other borrowings. Noninterest-bearing deposits increased by \$373.3 million.

Significantly affecting average earning assets during 2011 was the increase in the size of the loan portfolio combined with the reduction in the size of the investment portfolio and the decrease in interest earning cash balances at the Federal Reserve. Included in average earning assets for 2011 are approximately \$524.3 million from the Monroe Bancorp acquisition, which was acquired on January 1, 2011 and \$319.5 million from the Integra Bank acquisition, which was acquired on July 29, 2011. We adjusted the composition of the investment portfolio to manage the effective duration of the portfolio and reduce the leverage on the balance sheet as proceeds from principal and interest payments and securities sales were used to reduce other borrowings. The increase in average loans during 2011 is a result of the Monroe Bancorp and Integra Bank acquisitions. Commercial and commercial real estate loans continue to be affected by weak loan demand in our markets, more stringent loan underwriting standards and our desire to lower future potential credit risk by being cautious towards the real estate market. The loan portfolio, which generally has an average yield higher than the investment portfolio, has increased as a percent of interest earning assets during 2011 and was approximately 64 percent of interest earning assets at December 31, 2011.

Positively affecting margin was an increase in noninterest-bearing demand deposits combined with decreases in time deposits and other borrowings. During 2011, we prepaid \$119.2 million of FHLB advances and \$80.0 million of structured repurchase agreements. In the fourth quarter of 2011, \$150.0 million of subordinated bank notes matured. During 2010, we prepaid \$75.0 million of FHLB advances and \$49.0 million of long-term repurchase agreements. In the second quarter of 2010, a senior unsecured note totaling \$50.0 million matured. In the fourth quarter of 2010, we redeemed \$100.0 million of 8.0% trust preferred securities. Year over year, time deposits and other borrowings, which have an average interest rate higher than other types of deposits, have decreased as a percent of interest-bearing liabilities. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding.

The following table presents a three-year average balance sheet and for each major asset and liability category, its related interest income and yield or its expense and rate for the years ended December 31.

**Table of Contents****THREE-YEAR AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS**

(tax equivalent basis, dollars in thousands)	xxx Average Balance	xxx 2011 Interest & Fees	xxx Yield/ Rate	xxx Average Balance	xxx 2010 Interest & Fees	xxx Yield/ Rate	xxx Average Balance	xxx 2009 Interest & Fees	xxx Yield/ Rate
<b>Earning Assets</b>									
Money market and other interest- earning investments (7)	\$ 152,848	\$ 362	0.24%	\$ 177,786	\$ 431	0.24%	\$ 79,701	\$ 133	0.17%
Investment securities: (6)									
U.S. Treasury & Government- sponsored agencies (1)	1,969,590	52,369	2.66	2,150,562	77,208	3.59	1,979,557	89,109	4.50
States and political subdivisions (3)	580,851	34,135	5.88	536,295	33,181	6.19	506,709	34,072	6.72
Other securities	211,862	9,102	4.30	198,747	9,307	4.68	214,414	10,570	4.93
<b>Total investment securities</b>	<b>2,762,303</b>	<b>95,606</b>	<b>3.46</b>	<b>2,885,604</b>	<b>119,696</b>	<b>4.15</b>	<b>2,700,680</b>	<b>133,751</b>	<b>4.95</b>
Loans: (2)									
Commercial (3) (4)	1,326,746	63,953	4.82	1,271,515	56,153	4.42	1,684,693	75,629	4.49
Commercial real estate	1,308,401	78,912	6.03	1,007,636	44,992	4.47	1,117,285	51,652	4.62
Residential real estate (5)	847,722	41,267	4.87	464,676	26,209	5.64	469,446	26,422	5.63
Consumer, net of unearned income	961,072	58,314	6.07	1,007,390	62,849	6.24	1,155,420	73,921	6.40
<b>Total loans (4) (5)</b>	<b>4,443,941</b>	<b>242,446</b>	<b>5.46</b>	<b>3,751,217</b>	<b>190,203</b>	<b>5.07</b>	<b>4,426,844</b>	<b>227,624</b>	<b>5.14</b>
<b>Total earning assets</b>	<b>7,359,092</b>	<b>\$ 338,414</b>	<b>4.60%</b>	<b>6,814,607</b>	<b>\$ 310,330</b>	<b>4.55%</b>	<b>7,207,225</b>	<b>\$ 361,508</b>	<b>5.02%</b>
Less: Allowance for loan losses	(70,753)			(73,868)			(70,098)		
<b>Non-Earning Assets</b>									
Cash and due from banks	152,162			124,565			127,697		
Other assets	944,172			721,142			724,969		
<b>Total assets</b>	<b>\$ 8,384,673</b>			<b>\$ 7,586,446</b>			<b>\$ 7,989,793</b>		
<b>Interest-Bearing Liabilities</b>									
NOW deposits	\$ 1,472,710	\$ 587	0.04%	\$ 1,221,352	\$ 411	0.03%	\$ 1,250,745	\$ 473	0.04%
Savings deposits	1,384,294	3,948	0.29	1,043,289	3,134	0.30	937,642	3,585	0.38
Money market deposits	328,550	337	0.10	361,166	357	0.10	436,507	441	0.10
Time deposits	1,647,729	31,039	1.88	1,753,561	44,706	2.55	2,054,740	63,129	3.07
<b>Total interest-bearing deposits</b>	<b>4,833,283</b>	<b>35,911</b>	<b>0.74</b>	<b>4,379,368</b>	<b>48,608</b>	<b>1.11</b>	<b>4,679,634</b>	<b>67,628</b>	<b>1.45</b>
Short-term borrowings	363,623	550	0.15	328,535	662	0.20	527,147	1,410	0.27
Other borrowings	414,902	17,259	4.16	615,006	29,162	4.74	812,062	40,240	4.96
<b>Total interest-bearing liabilities</b>	<b>5,611,808</b>	<b>\$ 53,720</b>	<b>0.96%</b>	<b>5,322,909</b>	<b>\$ 78,432</b>	<b>1.47%</b>	<b>6,018,843</b>	<b>\$ 109,278</b>	<b>1.82%</b>
<b>Noninterest-Bearing Liabilities</b>									
Demand deposits	1,555,946			1,182,653			1,018,405		
Other liabilities	215,730			211,651			228,646		
Shareholders' equity	1,001,189			869,233			723,899		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 8,384,673</b>			<b>\$ 7,586,446</b>			<b>\$ 7,989,793</b>		
<b>Interest Margin Recap</b>									
Interest income/average earning assets		\$ 338,414	4.60%		\$ 310,330	4.55%		\$ 361,508	5.02%
Interest expense/average earning assets		53,720	0.73		78,432	1.15		109,278	1.52



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Net interest income and margin	\$ 284,694	3.87%	\$ 231,898	3.40%	\$ 252,230	3.50%
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- (1) Includes U.S. Government-sponsored entities, agency mortgage-backed securities and \$85.9 million of non-agency mortgage-backed securities at December 31, 2011.
- (2) Includes principal balances of nonaccrual loans. Interest income relating to nonaccrual loans is included only if received.
- (3) Interest on state and political subdivision investment securities and commercial loans includes the effect of taxable equivalent adjustments of \$7.3 million and \$4.5 million, respectively, in 2011; \$8.5 million and \$5.0 million, respectively, in 2010; and \$11.2 million and \$9.6 million, respectively, in 2009; using the federal statutory tax rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations.
- (4) Includes finance leases held for sale.
- (5) Includes residential loans held for sale.
- (6) Changes in fair value are reflected in the average balance; however, yield information does not give effect to changes in fair value that are reflected as a component of shareholders' equity.
- (7) The 2011 and 2010 average balances include \$146.0 million and \$152.3 million, respectively, of required and excess balances held at the Federal Reserve.

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The following table shows fluctuations in net interest income attributable to changes in the average balances of assets and liabilities and the yields earned or rates paid for the years ended December 31.

**NET INTEREST INCOME - RATE/VOLUME ANALYSIS (tax equivalent basis, dollars in thousands)**

	September 30, Total Change	September 30, 2011 vs. 2010 Attributed to Volume	September 30, Rate	September 30, Total Change	September 30, 2010 vs. 2009 Attributed to Volume	September 30, Rate
<b>Interest Income</b>						
Money market and other interest-earning investments	\$ (69)	\$ (59)	\$ (10)	\$ 298	\$ 200	\$ 98
Investment securities (1)	(24,090)	(4,691)	(19,399)	(14,055)	8,415	(22,470)
Loans (1)	52,243	36,459	15,784	(37,421)	(34,499)	(2,922)
<b>Total interest income</b>	<b>28,084</b>	<b>31,709</b>	<b>(3,625)</b>	<b>(51,178)</b>	<b>(25,884)</b>	<b>(25,294)</b>
<b>Interest Expense</b>						
NOW deposits	176	92	84	(62)	(11)	(51)
Savings deposits	814	998	(184)	(451)	360	(811)
Money market deposits	(20)	(33)	13	(84)	(76)	(8)
Time deposits	(13,667)	(2,346)	(11,321)	(18,423)	(8,466)	(9,957)
Short-term borrowings	(112)	61	(173)	(748)	(466)	(282)
Other borrowings	(11,903)	(8,906)	(2,997)	(11,078)	(9,554)	(1,524)
<b>Total interest expense</b>	<b>(24,712)</b>	<b>(10,134)</b>	<b>(14,578)</b>	<b>(30,846)</b>	<b>(18,213)</b>	<b>(12,633)</b>
<b>Net interest income</b>	<b>\$ 52,796</b>	<b>\$ 41,843</b>	<b>\$ 10,953</b>	<b>\$ (20,332)</b>	<b>\$ (7,671)</b>	<b>\$ (12,661)</b>

The variance not solely due to rate or volume is allocated equally between the rate and volume variances.

- (1) Interest on investment securities and loans includes the effect of taxable equivalent adjustments of \$7.3 million and \$4.5 million, respectively, in 2011; \$8.5 million and \$5.0 million, respectively, in 2010; and \$11.2 million and \$9.6 million, respectively, in 2009; using the federal statutory rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations.

**Provision for Loan Losses**

The provision for loan losses was \$7.5 million in 2011, a \$23.3 million decrease from the \$30.8 million recorded in 2010. The lower provision in 2011 was attributable to the following factors: (1) the loss factors applied to our performing loan portfolio have decreased during 2011 compared to 2010 as charge-offs were substantially lower, (2) apart from those loans acquired in our two acquisitions, which are substantially accounted for at fair value, our total loans decreased \$16.2 million from December 31, 2010 to December 31, 2011, and (3) the percentage of our loan portfolio consisting of those loans where higher loss factors are applied (commercial and commercial real estate loans) fell to 48% in 2011 compared to 58% in 2010 while the percentage of our loan portfolio consisting of those loans where lower loss factors are applied (residential loans) increased to 21% in 2011 compared to 18% in 2010. For additional information about non-performing loans, charge-offs and additional items impacting the provision, refer to the Risk Management Credit Risk section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Noninterest Income**

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products and insurance. This source of revenue has decreased as a percentage of total revenue to 40.1% in 2011 compared to 43.8% in 2010.

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Noninterest income for 2011 was \$182.9 million, an increase of \$12.7 million, or 7.5% compared to \$170.2 million reported for 2010. Net securities gains were \$7.3 million during 2011 compared to \$13.2 million for 2010. Included in 2011 is \$8.7 million of security gains partially offset by \$1.4 million of other-than-temporary-impairment charges on one pooled trust preferred security and three non-agency mortgage-backed securities. Included in 2010 is \$17.1 million of security gains partially offset by \$3.9 million of other-than-temporary-impairment on three pooled trust preferred securities and ten non-agency mortgage-backed securities. Sales of securities continued during 2010 and 2011 as we adjusted the composition of the investment portfolio to manage the effective duration of the portfolio and reduce the leverage on the balance sheet as proceeds from securities sales were used to reduce other borrowings.

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Also affecting noninterest income in 2011 is a \$4.3 million increase in wealth management fees, a \$2.2 million increase in debit card and ATM card fees, a \$1.8 million increase in investment product fees, a \$1.8 million increase in service charges on deposit accounts and a \$4.3 million increase in other income. Partially offsetting these increases was a \$0.5 million decrease in gains on derivatives.

Wealth management fees increased by \$4.3 million to \$20.5 million in 2011. The increase was primarily due to the acquisition of Monroe Bancorp on January 1, 2011 and the trust business of Integra Bank on June 1, 2011.

Service charges and overdraft fees on deposit accounts increased by \$1.9 million to \$51.9 million in 2011 as compared to \$50.0 million in 2010. The increase in revenue is primarily attributable to the Integra Bank and Monroe Bancorp acquisitions. Service charges and overdraft fees were negatively impacted by new regulatory requirements in the third quarter of 2010. The negative impact was partially mitigated with adjustments to our product pricing structure late in the third quarter of 2010.

Debit card and ATM fees increased by \$2.2 million to \$25.2 million in 2011 as compared to \$23.0 million in 2010. The increase in debit card usage is primarily attributable to the Monroe Bancorp and Integra Bank acquisitions.

Mortgage banking revenue was \$3.2 million in 2011, an increase of \$1.0 million as compared to \$2.2 million in 2010. Mortgage fee revenue increased as a result of fluctuation in the value of mortgage derivatives and our decision to sell more loans to the secondary market.

Investment product fees were \$11.1 million in 2011 compared to \$9.2 million in 2010. The increase is primarily as a result of increases in annuity fees and other investment advisory fees.

Revenue from company-owned life insurance was \$5.3 million in 2011 compared to \$4.1 million in 2010. We anticipate this revenue will continue to slowly improve.

Fluctuations in the value of our derivatives resulted in gains on derivatives of \$1.0 million in 2011 as compared to gains on derivatives of \$1.5 million in 2010.

The \$1.4 million increase in gain on sale leaseback transactions is primarily due to the repurchase of a branch in 2011 and acceleration of the deferred gain.

Other income increased \$4.3 million in 2011 as compared to 2010. The increase was primarily as a result of the gain on the sale of the deposits of four former Integra Bank branches located in the Chicago area, gains on sales of other real estate owned, an increase in rental income from an operating lease and rental income from other real estate owned.

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

**NONINTEREST INCOME**

	September 30,	September 30,	September 30,	September 30,	September 30,
	2011	2010	2009	2011	2010
(dollars in thousands)				% Change From	
				Prior Year	
Wealth management fees	\$ 20,460	\$ 16,120	\$ 15,963	26.9 %	1.0 %
Service charges on deposit accounts	51,862	50,018	55,196	3.7	(9.4)
ATM fees	25,199	22,967	20,472	9.7	12.2
Mortgage banking revenue	3,250	2,230	6,238	45.7	(64.3)
Insurance premiums and commissions	36,957	36,463	37,851	1.4	(3.7)
Investment product fees	11,068	9,192	8,515	20.4	8.0
Company-owned life insurance	5,322	4,052	2,355	31.3	72.1
Other income	12,219	7,967	7,394	53.4	7.7
<b>Total fee and service charge income</b>	<b>166,337</b>	<b>149,009</b>	<b>153,984</b>	<b>11.6</b>	<b>(3.2)</b>
Net securities gains	8,691	17,124	27,251	(49.2)	(37.2)
Impairment on available-for-sale securities	(1,409)	(3,927)	(24,795)	(64.1)	(84.2)
Gain on derivatives	974	1,492	719	(34.7)	107.6
Gain on sale leasebacks	7,864	6,452	6,301	21.9	2.4
Change in FDIC indemnification asset	426			N/M	
<b>Total noninterest income</b>	<b>\$ 182,883</b>	<b>\$ 170,150</b>	<b>\$ 163,460</b>	<b>7.5 %</b>	<b>4.1 %</b>
Noninterest income to total revenue (1)	39.1%	42.3%	39.3%		

(1) Total revenue includes the effect of a taxable equivalent adjustment of \$11.8 million in 2011, \$13.5 million in 2010 and \$20.8 million in 2009.

N/M = Not meaningful

**Noninterest Income Related to Covered Assets**

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

The net change in the FDIC indemnification asset was \$0.4 million for 2011. The income was attributable to indemnification asset accretion.

**Noninterest Expense**

Noninterest expense for 2011 totaled \$348.5 million, an increase of \$34.2 million, or 10.9% from the \$314.3 million recorded in 2010. The acquisition of Monroe Bancorp and Integra Bank were the primary reasons for the increase in noninterest expenses. Noninterest expense for Monroe Bancorp totaled approximately \$21.2 million for the twelve months ended December 31, 2011, which includes approximately \$6.6 million of acquisition and integration costs. Noninterest expense for Integra Bank totaled \$25.9 million from July 29, 2011 to December 31, 2011. This amount includes approximately \$11.1 million of acquisition and integration costs. Also included in 2011 is a \$3.6 million increase in performance-based incentive compensation expense and \$2.0 million accrued for a potential litigation settlement.

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Salaries and benefits, the largest component of noninterest expense, totaled \$189.5 million in 2011, compared to \$170.6 million in 2010, an increase of \$18.9 million, or 11.1%. Included in 2011 is \$9.1 million, including severance, of salary and benefits expense associated with former Monroe Bancorp associates and \$10.9 million of salary and benefits expense, including retention and other transitional services, associated with former Integra Bank associates. Also included in 2011 is a \$3.6 million increase in expense related to the reinstatement of our performance-based incentive compensation plan, a \$0.8 million increase in employment taxes, a \$1.7 million increase in hospitalization expense, a \$1.2 million increase in pension expense and a \$0.9 million decrease in profit sharing expense. These increases were partially offset by our on-going cost containment efforts.

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Occupancy expense increased \$4.6 million for 2011 as compared to 2010. The increase is primarily attributable to the rent paid on Monroe Bancorp and Integra Bank financial centers.

Professional fees increased \$6.7 million for 2011 as compared to 2010. The increase is primarily attributable to other professional fees associated with the acquisition of Monroe Bancorp in the first quarter of 2011 and the acquisition of Integra Bank in the third quarter of 2011.

2011 loss on debt extinguishment was \$5.3 million lower than in 2010 due to the call of our \$100 million 8% trust preferred security, the prepayment of three FHLB advances and two long-term repurchase agreements in 2010 compared to minimal debt extinguishment costs in 2011.

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

Other noninterest expense totaled \$16.2 million for 2011 compared to \$13.9 million for 2010, an increase of \$2.3 million, or 16.1%. The increase is primarily attributable to an accrual for a potential litigation settlement of \$2.0 million.

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

**NONINTEREST EXPENSE**

	September 30, 2011	September 30, 2010	September 30, 2009	September 30, % Change From Prior Year 2011	September 30, 2010
(dollars in thousands)					
Salaries and employee benefits	\$ 189,539	\$ 170,601	\$ 181,368	11.1 %	(5.9)%
Occupancy	51,054	46,410	47,064	10.0	(1.4)
Equipment	11,720	10,641	10,440	10.1	1.9
Marketing	5,990	5,720	9,578	4.7	(40.3)
Data processing	22,971	21,409	20,700	7.3	3.4
Communications	10,406	9,803	10,922	6.2	(10.2)
Professional fees	14,959	8,253	9,491	81.3	(13.0)
Loan expense	4,734	3,936	4,335	20.3	(9.2)
Supplies	3,762	2,935	4,294	28.2	(31.6)
Loss on extinguishment of debt	789	6,107	3,941	(87.1)	55.0
FDIC assessment	7,523	8,370	12,447	(10.1)	(32.8)
Amortization of intangibles	8,829	6,130	5,988	44.0	2.4
Other expense	16,245	13,990	18,388	16.1	(23.9)
Total noninterest expense	\$ 348,521	\$ 314,305	\$ 338,956	10.9 %	(7.3)%

N/M = Not meaningful

**Noninterest Expense Related to Covered Assets**

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

\$223 thousand, or twenty percent of the expense associated with holding and maintaining OREO properties assumed in the Integra acquisition, are not reimbursable by the FDIC and were recorded as noninterest expense during 2011. The remaining eighty percent was recorded as a receivable from the FDIC. Additional non-reimbursable expenses of \$133 thousand associated with holding and maintaining OREO properties assumed in the Integra acquisition were also recorded in noninterest expense during 2011.





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

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The effective tax rate varied significantly from 2009 to 2011 due to increases in pre-tax income while tax-exempt income has decreased. See Note 12 to the consolidated financial statements for additional details on Old National's income tax provision.

***Comparison of Fiscal Years 2010 and 2009***

In 2010, we generated net income available to common stockholders of \$38.2 million and diluted net income per share of \$0.44 compared to \$9.8 million and \$0.14, respectively in 2009. The 2010 earnings included a \$6.7 million increase in noninterest income, a \$32.5 million decrease in the provision for loan losses and a \$24.7 million decrease in noninterest expense. Offsetting these increases to net income in 2010 was a \$13.0 million decrease in net interest income and a \$26.4 million increase in income tax expense.

Taxable equivalent net interest income was \$231.9 million in 2010, an 8.1% decrease from the \$252.2 million reported in 2009. The net interest margin was 3.40% for 2010, a 10 basis point decrease compared to 3.50% reported for 2009. Average earning assets decreased by \$392.6 million during 2010 and the yield on average earning assets decreased 47 basis points from 5.02% to 4.55%. Average interest-bearing liabilities decreased \$695.9 million and the cost of interest-bearing liabilities decreased from 1.82% to 1.47%.

The provision for loan losses was \$30.8 million in 2010, a \$32.5 million decrease from the \$63.3 million recorded in 2009. The lower provision in 2010 was primarily attributable to the decrease in net charge-offs.

Noninterest income for 2010 was \$170.2 million, an increase of \$6.7 million, or 4.1% from the \$163.5 million reported for 2009. Net securities gains were \$13.2 million during 2010 compared to \$2.5 million for 2009. Included in 2010 is \$17.1 million of security gains partially offset by \$3.9 million of other-than-temporary-impairment on three pooled trust preferred securities and ten non-agency mortgage-backed securities. Sales of securities increased during 2009 and continued into 2010 as we adjusted the composition of the investment portfolio to reduce the effective duration of the portfolio and reduce the leverage on the balance sheet as proceeds from securities sales were used to reduce wholesale funding. Also affecting noninterest income in 2010 was a \$5.2 million decrease in service charges on deposit accounts, a \$4.0 million decrease in mortgage banking revenue and a \$1.4 million decrease in insurance premiums and commissions. Partially offsetting these decreases were a \$2.5 million increase in ATM and debit card fees, a \$1.7 million increase in revenue from company-owned life insurance and a \$0.8 million increase in gains on derivatives.

Noninterest expense for 2010 totaled \$314.3 million, a decrease of \$24.7 million, or 7.3% from the \$339.0 million recorded in 2009. Decreases in salaries and benefits expense, marketing expense, FDIC assessment expense and other noninterest expense were the primary reasons for the decrease in noninterest expense.

The provision for income taxes on continuing operations was an expense of \$5.3 million in 2010 compared to a benefit of \$21.1 million in 2009. Old National's effective tax rate was 12.1% in 2010 compared to a benefit of 286.2% in 2009. The effective tax rate varied significantly from 2009 to 2010 due to large fluctuations in pre-tax income while the other items affecting the rate, in particular tax-exempt income, remained relatively stable.

**Table of Contents****BUSINESS LINE RESULTS**

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

**BUSINESS LINE RESULTS**

(dollars in thousands)	September 30, 2011	September 30, 2010	September 30, 2009
Community banking	\$ 129,446	\$ 73,108	\$ 48,003
Treasury	(29,905)	(26,310)	(50,072)
Other	221	(3,318)	(5,308)
Income (loss) before income taxes	\$ 99,762	\$ 43,480	\$ (7,377)

The 2011 community banking segment profit increased \$56.3 million from 2010 levels, primarily as a result of the acquisitions of Monroe Bancorp and Integra Bank and a decrease in provision for loan loss expense. The 2010 community banking segment profit increased \$25.1 million from 2009 levels, primarily as a result of a decrease in provision for loan loss expense and lower FDIC assessment expense.

The 2011 treasury segment profit decreased \$3.6 million from 2010 primarily as a result of the \$5.9 million decrease in net securities gains in 2011. The 2010 treasury segment profit increased \$23.8 million from 2009 primarily as a result of the \$20.9 million decrease in other-than-temporary-impairment in 2010. In 2010, \$3.9 million of other-than-temporary impairment was recorded on three pooled trust preferred securities and ten non-agency mortgage-backed securities.

The 2011 other segment profit increased approximately \$3.5 million from 2010 primarily as a result of the increased trust business associated with the Monroe Bancorp and Integra acquisitions. The 2010 other segment profit increased approximately \$2.0 million from 2009 primarily as a result of lower expenses in the insurance agency area.

**FINANCIAL CONDITION****Overview**

At December 31, 2011, our total assets were \$8.610 billion, an 18.5% increase from \$7.264 billion at December 31, 2010. The increase is primarily a result of the acquisition of Monroe Bancorp, which occurred on January 1, 2011 and the acquisition of Integra Bank, which occurred in the third quarter of 2011. The increase in purchased loan balances has more than offset the decrease in investment securities and interest earning cash balances over the past twelve months. We are continuing to reduce our reliance on higher cost deposits and other borrowings. Earning assets, comprised of investment securities, portfolio loans, loans and leases held for sale, money market investments and interest earning accounts with the Federal Reserve, were \$7.392 billion at December 31, 2011, an increase of \$870.7 million, or 13.4%, from \$6.522 billion at December 31, 2010. The increase in earning assets is primarily a result of the acquisition of Monroe Bancorp and Integra Bank. Year over year, time deposits and other borrowings, which have an average interest rate higher than other types of deposits, have decreased as a percent of total funding. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding.

**Investment Securities**

We classify investment securities primarily as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we also have \$84.1 million of 15- and 20-year fixed-rate mortgage pass-through securities, \$177.2 million of U.S. government-sponsored entity and agency securities and \$216.3 million of state and political subdivision securities in our held-to-maturity investment portfolio at December 31, 2011. During the second quarter of 2010, approximately \$143.8 million of state and political subdivision securities were transferred from the available-for-sale portfolio to our held-to-maturity portfolio at fair value.



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Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled \$2.8 million at December 31, 2011.

At December 31, 2011, the investment securities portfolio was \$2.590 billion compared to \$2.630 billion at December 31, 2010, a decrease of 1.6%. Investment securities represented 35.0% of earning assets at December 31, 2011, compared to 40.3% at December 31, 2010. We adjusted the composition of the investment portfolio to manage the effective duration of the portfolio and reduce the leverage on the balance sheet as proceeds from principal and interest payments and cash flows from sales, calls and maturities of securities were used to reduce other borrowings. 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 December 31, 2011, management does not intend to sell any securities with an unrealized loss position and does not believe the Company will be required to sell such securities.

The investment securities available-for-sale portfolio had net unrealized gains of \$40.5 million at December 31, 2011, compared to net unrealized gains of \$6.4 million at December 31, 2010. A \$1.4 million charge was recorded during 2011 related to other-than-temporary-impairment on one pooled trust preferred security and three non-agency mortgage-backed securities. A \$3.9 million charge was recorded during 2010 related to other-than-temporary-impairment on three pooled trust preferred securities and ten non-agency mortgage-backed securities. See Note 1 to the consolidated financial statements for the impact of other-than-temporary-impairment in other comprehensive income and Note 3 to the consolidated financial statements for details on management's evaluation of securities for other-than-temporary-impairment.

The investment portfolio had an effective duration of 3.63% at December 31, 2011, compared to 4.23% at December 31, 2010. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. The weighted average yields on available-for-sale investment securities were 3.32% in 2011 and 4.06% in 2010. The average yields on the held-to-maturity portfolio were 3.96% in 2011 and 3.84% in 2010.

At December 31, 2011, Old National had a concentration of investment securities issued by the state of Indiana and its political subdivisions with an aggregate market value of \$268.4 million, which represented 26.0% of shareholders' equity. At December 31, 2010, Old National had a concentration of investment securities issued by the state of Indiana and its political subdivisions with an aggregate market value of \$212.2 million, which represented 24.1% of shareholders' equity. There were no other concentrations of investment securities issued by an individual state and its political subdivisions that were greater than 10% of shareholders' equity.

## **Loan Portfolio**

We lend primarily to consumers and small to medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Illinois and Kentucky.

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The following table, including covered loans, presents the composition of the loan portfolio at December 31.

**LOAN PORTFOLIO AT YEAR-END**

	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007	September 30, Four-Year Growth Rate
(dollars in thousands)						
Commercial	\$ 1,341,409	\$ 1,211,399	\$ 1,287,168	\$ 1,897,966	\$ 1,694,736	(5.7)%
Commercial real estate	1,393,304	942,395	1,062,910	1,154,916	1,270,408	2.3
Consumer credit	990,061	924,952	1,082,017	1,210,951	1,187,764	(4.4)
Total loans excluding residential real estate	3,724,774	3,078,746	3,432,095	4,263,833	4,152,908	(2.7)
Residential real estate	1,042,429	664,705	403,391	496,526	533,448	18.2
Total loans	4,767,203	3,743,451	3,835,486	4,760,359	4,686,356	0.4 %
Less: Allowance for loan losses	58,060	72,309	69,548	67,087	56,463	
Net loans	\$ 4,709,143	\$ 3,671,142	\$ 3,765,938	\$ 4,693,272	\$ 4,629,893	

*Commercial and Commercial Real Estate Loans*

At December 31, 2011, commercial loans increased \$130.0 million while commercial real estate loans increased \$450.9 million, respectively, from December 31, 2010. Included in the commercial loan total for December 31, 2011 is approximately \$54.6 million related to our acquisition of Monroe Bancorp and \$131.0 million related to our acquisition of Integra Bank. Included in the commercial real estate loan total for December 31, 2011 is approximately \$233.4 million related to our acquisition of Monroe Bancorp and \$321.6 million related to our acquisition of Integra Bank. During 2011, we sold \$5.4 million of commercial and commercial real estate loans. No write-down was recorded against the allowance for loan losses related to these sales. We sold \$3.2 million of commercial and commercial real estate loans during 2010. No write-down was recorded against the allowance for loan losses related to these sales. Weak loan demand in our markets continues to affect organic loan growth. Our conservative underwriting standards have also contributed to slower loan growth. We continue to be cautious towards the real estate market in an effort to lower credit risk.

The following table presents the maturity distribution and rate sensitivity of commercial loans and an analysis of these loans that have predetermined and floating interest rates. A significant percentage of commercial loans are due within one year, reflecting the short-term nature of a large portion of these loans.

**DISTRIBUTION OF COMMERCIAL LOAN MATURITIES AT DECEMBER 31, 2011**

	September 30, Within 1 Year	September 30, 1 - 5 Years	September 30, Beyond 5 Years	September 30, Total
(dollars in thousands)				
Interest rates:				
Predetermined	\$ 328,491	\$ 216,796	\$ 93,875	\$ 639,162
Floating	445,955	172,767	83,525	702,247
Total	\$ 774,446	\$ 389,563	\$ 177,400	\$ 1,341,409

*Consumer Loans*

Consumer loans, including automobile loans, personal and home equity loans and lines of credit, increased \$65.1 million or 7.0% at December 31, 2011, compared to December 31, 2010. Included in the total for December 31, 2011 is approximately \$33.2 million related to our acquisition of Monroe Bancorp and \$165.5 million related to our acquisition of Integra Bank.

*Residential Real Estate Loans*

Residential real estate loans, primarily 1-4 family properties, were \$1.042 billion at December 31, 2011, an increase of \$377.7 million or 56.8% from December 31, 2010. In addition to organic loan production, December 31, 2011 totals also include approximately \$41.9 million acquired from Monroe Bancorp and \$58.7 million acquired from Integra Bank. The majority of the growth in residential real estate loans began in the fourth quarter of 2010, primarily as a result of a new mortgage product that was introduced. We have also retained more of our loan originations to partially offset the slow loan demand from our traditional commercial customers. Over the past twelve months new loan production has been greater than payments on existing loans.

**Table of Contents***Allowance for Loan Losses*

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The determination of the allowance is based upon the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events and regulatory guidance. Additional information about our Allowance for Loan Losses is included in the Risk Management Credit Risk section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1 and 5 to the consolidated financial statements.

At December 31, 2011, the allowance for loan losses was \$58.1 million, a decrease of \$14.2 million compared to \$72.3 million at December 31, 2010. As a percentage of total loans, the allowance decreased to 1.22% at December 31, 2011, from 1.93% at December 31, 2010. During 2011, the provision for loan losses was \$7.5 million, a decrease of \$23.3 million from the \$30.8 million recorded in 2010. The lower provision for loan losses in 2011 was attributable to the following factors: (1) the loss factors applied to our performing loan portfolio have decreased during 2011 compared to 2010 as charge-offs were substantially lower, (2) apart from those loans acquired in our two acquisitions, which are substantially accounted for at fair value, our total loans decreased \$16.2 million from December 31, 2010 to December 31, 2011, and (3) the percentage of our loan portfolio consisting of those loans where higher loss factors are applied (commercial and commercial real estate loans) fell to 48% in 2011 compared to 58% in 2010 while the percentage of our loan portfolio consisting of those loans where lower loss factors are applied (residential loans) increased to 21% in 2011 compared to 18% in 2010.

For commercial loans, the reserve decreased by \$6.2 million at December 31, 2011, compared to December 31, 2010. The reserve as a percentage of the commercial loan portfolio decreased to 1.64% at December 31, 2011, from 2.16% at December 31, 2010. For commercial real estate loans, the reserve decreased by \$5.8 million at December 31, 2011, compared to December 31, 2010. The reserve as a percentage of the commercial real estate loan portfolio decreased to 2.52% at December 31, 2011, from 3.47% at December 31, 2010. Nonaccrual loans, excluding covered loans, increased \$44.4 million since December 31, 2010. Criticized and classified loans increased \$25.9 million from December 31, 2010. During 2011, other classified assets, which consist of investment securities downgraded below investment grade, increased \$1.3 million.

The reserve for residential real estate loans as a percentage of that portfolio remained constant at 0.35% at both December 31, 2011 and December 31, 2010. The reserve for consumer loans decreased to 0.79% at December 31, 2011, from 1.20% at December 31, 2010. The lower reserve percentages for these portfolios are a result of improved credit quality in these portfolios during 2011.

*Allowance for Losses on Unfunded Commitments*

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. This allowance is reported as a liability on the balance sheet within accrued expenses and other liabilities, while the corresponding provision for these loan losses is recorded as a component of other expense. As of December 31, 2011 and 2010, the allowance for losses on unfunded commitments was \$4.8 million and \$3.8 million, respectively.

**Residential Loans Held for Sale**

At December 31, 2011, loans held for sale is made up entirely of mortgage loans held for immediate sale in the secondary market with servicing released. These loans are sold at or prior to origination at a contracted price to an outside investor on a best efforts basis and remain on the Company's balance sheet for a short period of time (typically 30 to 60 days). These loans are sold without recourse and the Company has experienced minimal requests to repurchase loans due to the standard representations and warranties without any material losses. Mortgage originations are subject to volatility due to interest rates and home sales. Residential loans held for sale have declined since the end of 2009, as we have retained certain of our loan originations to partially offset the slow loan demand from our traditional commercial customers. Residential loans held for sale were \$4.5 million at December 31, 2011, compared to \$3.8 million at December 31, 2010.

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We elected the fair value option under FASB ASC 825-10, Financial Instruments (SFAS No. 159) prospectively for residential loans held for sale. The election was effective for loans originated since January 1, 2008. The aggregate fair value exceeded the unpaid principal balances by \$0.1 million as of December 31, 2011. At December 31, 2010, the aggregate fair value equaled the unpaid principal balance.

**Covered Assets**

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

A summary of covered assets is presented below:

(dollars in thousands)	September 30, December 31, 2011	September 30, July 29, 2011
Loans, net of discount & allowance	\$ 625,417	\$ 727,330
Other real estate owned	30,443	34,055
<b>Total covered assets</b>	<b>\$ 655,860</b>	<b>\$ 761,385</b>

**FDIC Indemnification Asset**

Because the FDIC will reimburse Old National for losses incurred on certain acquired loans, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The loss share agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. As reimbursement claims are submitted to the FDIC, these claim amounts are reclassified from the indemnification asset to an FDIC loss share receivable carried as an other asset on the balance sheet. The receivable is reduced when the FDIC pays the claim. At December 31, 2011, the FDIC indemnification asset was \$147.6 million.

A summary of activity for the indemnification asset and loss share receivable is presented below:

(dollars in thousands)	September 30,
<b>Indemnification Asset</b>	
Balance at January 1, 2011	\$
Adjustments not reflected in income	
Established through acquisitions	167,949
Reclass to loss claims receivable	(20,808)
Other	(1)
Adjustments reflected in income	
(Amortization) accretion	1,459
Other	(1,033)
<b>Balance at December 31, 2011</b>	<b>\$ 147,566</b>



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	September 30,
<b>(dollars in thousands)</b>	
<b>Loss Share Receivable</b>	
Balance at January 1, 2011	\$
Established through acquisitions	
Reclass from indemnification asset	20,808
Cash received from FDIC	(660)
Balance at December 31, 2011	\$ 20,148

**Goodwill and Other Intangible Assets**

Goodwill and other intangible assets at December 31, 2011, totaled \$286.8 million, an increase of \$92.7 million compared to \$194.1 million at December 31, 2010. During the first quarter of 2011, we recorded \$78.9 million of goodwill and other intangible assets associated with the acquisition of Monroe Bancorp. Approximately \$75.7 million is included in the Community Banking column for segment reporting and \$3.2 million is included in the Other column for segment reporting. During the second quarter of 2011, Old National recorded \$1.3 million of customer relationship intangibles associated with the trust business of Integra Wealth Management and Trust, which is included in the Other segment. During the third quarter of 2011, we recorded \$21.2 million of goodwill and other intangible assets associated with the acquisition of Integra Bank, which is included in the Community Banking column for segment reporting.

**Assets Held for Sale**

Assets held for sale were \$16.9 million at December 31, 2011. Included in assets held for sale are ten financial centers associated with the Integra acquisition and five facilities associated with the Monroe Bancorp acquisition.

**Other Assets**

Other assets have increased \$56.9 million, or 30.0%, since December 31, 2010 primarily as a result of an \$8.0 million increase in deferred tax assets, a \$20.1 million increase in receivables from the FDIC and an \$11.4 million increase from fluctuations in the fair value of derivative financial instruments and the addition of derivative financial instruments assumed in the Integra acquisition.

**Funding**

Total average funding, comprised of deposits and wholesale borrowings, was \$7.168 billion at December 31, 2011, an increase of 10.2% from \$6.506 billion at December 31, 2010. Total deposits were \$6.612 billion, including \$5.164 billion in transaction accounts and \$1.448 billion in time deposits at December 31, 2011. Total deposits increased 21.0% or \$1.149 billion compared to December 31, 2010. Included in total deposits at December 31, 2011 are \$535.3 million from the acquisition of Monroe Bancorp and \$669.2 million from the acquisition of Integra Bank. Noninterest-bearing demand deposits increased 35.5% or \$452.5 million compared to December 31, 2010. Savings deposits increased 45.5% or \$491.0 million. NOW deposits increased 20.9% or \$271.6 million compared to December 31, 2010. Money market deposits decreased 11.6%, or \$39.0 million, while time deposits decreased 1.9% or \$27.6 million compared to December 31, 2010. Year over year, we have experienced an increase in noninterest-bearing demand deposits.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. Wholesale borrowing as a percentage of total funding was 9.8% at December 31, 2011, compared to 11.6% at December 31, 2010. Included in wholesale funding at December 31, 2011 is \$54.7 million from the acquisition of Monroe Bancorp and \$3.7 million from the acquisition of Integra Bank. Short-term borrowings have increased \$126.6 million since December 31, 2010 while long-term borrowings have decreased \$131.1 million compared to December 31, 2010. During 2011, we prepaid \$119.2 million of FHLB advances and \$80.0 million of structured repurchase agreements. In the fourth quarter of 2011, \$150.0 million of subordinated bank notes matured. During 2010, we prepaid \$75.0 million of FHLB advances and \$49.0 million of long-term repurchase agreements. In the second quarter of 2010, a senior unsecured note totaling \$50.0 million matured. In the fourth quarter of 2010, we redeemed \$100.0 million of 8.0% trust preferred securities. See Notes 10 and 11 to the consolidated financial statements for additional details on our financing activities.



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

**FUNDING SOURCES - AVERAGE BALANCES**

	September 30,	September 30,	September 30,	September 30,	September 30,
	2011	2010	2009	% Change From Prior Year	
(dollars in thousands)	2011	2010	2009	2011	2010
Demand deposits	\$ 1,555,946	\$ 1,182,653	\$ 1,018,405	31.6 %	16.1 %
NOW deposits	1,472,710	1,221,352	1,250,745	20.6	(2.4)
Savings deposits	1,384,294	1,043,289	937,642	32.7	11.3
Money market deposits	328,550	361,166	436,507	(9.0)	(17.3)
Time deposits	1,647,729	1,753,561	2,054,740	(6.0)	(14.7)
Total deposits	6,389,229	5,562,021	5,698,039	14.9	(2.4)
Short-term borrowings	363,623	328,535	527,147	10.7	(37.7)
Other borrowings	414,902	615,006	812,062	(32.5)	(24.3)
Total funding sources	\$ 7,167,754	\$ 6,505,562	\$ 7,037,248	10.2 %	(7.6)%

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

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

	September 30,	September 30,	September 30,	September 30,	September 30,
	Year-End	1-90	91-180	181-365	Beyond
(dollars in thousands)	Balance	Days	Days	Days	1 Year
2011	\$ 421,874	\$ 64,423	\$ 80,925	\$ 87,799	\$ 188,727
2010	466,293	73,376	30,591	121,153	241,173
2009	653,345	128,171	54,361	168,622	302,191

**Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities have increased \$46.9 million, or 23.2%, since December 31, 2010 primarily as a result of an \$11.4 million increase in accrued taxes payable, a \$20.9 million increase in payables to the FDIC, a \$7.5 million increase in accrued incentive liabilities, and an \$8.7 million increase from fluctuations in the fair value of derivative financial instruments and the addition of derivative instruments assumed in the Integra Bank acquisition.

**Capital**

Shareholders' equity totaled \$1.034 billion or 12.0% of total assets at December 31, 2011, and \$878.8 million or 12.1% of total assets at December 31, 2010. The December 31, 2011 balance includes approximately \$90.1 million from the approximately 7.6 million shares of common stock that were issued in the acquisition of Monroe Bancorp.

We paid cash dividends of \$0.28 per share in 2011, which decreased equity by \$26.5 million. We declared cash dividends on common stock of \$0.28 per share in 2010, which decreased equity by \$24.4 million. We repurchased shares of our stock, reducing shareholders' equity by \$1.5 million in 2011 and \$0.7 million in 2010. The repurchases related primarily to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by \$19.9 million in 2011 and increased equity by \$16.4 million in 2010. Shares issued for reinvested dividends, stock options, restricted stock and stock compensation plans increased shareholders' equity by \$4.0 million in 2011, compared to \$2.7 million in 2010.

**Capital Adequacy**

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Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. For additional information on capital adequacy see Note 21 to the consolidated financial statements.

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### **RISK MANAGEMENT**

#### **Overview**

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

#### **Credit Risk**

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

#### **Investment Activities**

Within our securities portfolio, the non-agency collateralized mortgage obligations represent the greatest exposure to the current instability in the residential real estate and credit markets. At December 31, 2011, we had non-agency collateralized mortgage obligations with a market value of \$85.9 million, or approximately 4.1% of the available-for-sale securities portfolio. The unrealized loss on these securities at December 31, 2011, was approximately \$4.5 million.

We expect conditions in the overall residential real estate market to remain uncertain for the foreseeable future. Deterioration in the performance of the underlying loan collateral could result in deterioration in the performance of our asset-backed securities. Nine non-agency mortgage-backed securities were rated below investment grade as of December 31, 2011. During 2011 we experienced \$2.3 million of other-than-temporary-impairment losses on three of these securities, of which \$0.5 million was recorded as a credit loss in earnings and \$1.8 million is included in other comprehensive income. During the fourth quarter of 2010 we sold two non-agency mortgage-backed securities with an amortized cost basis of approximately \$38.4 million that were below investment grade. During 2010 we experienced \$4.1 million of other-than-temporary-impairment losses on ten of these securities, of which \$3.0 million was recorded as a credit loss in earnings and \$1.1 million is included in other comprehensive income.

We also carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and the performance of the underlying collateral. At December 31, 2011, we had pooled trust preferred securities with a fair value of approximately \$7.3 million, or 0.4% of the available-for-sale securities portfolio. During 2011, we experienced \$0.9 million of other-than-temporary-impairment on one of these securities, all of which was recorded as a credit loss in earnings. These securities remained classified as available-for-sale and at December 31, 2011, the unrealized loss on our pooled trust preferred securities was approximately \$18.1 million. During 2010, three of these securities experienced \$0.9 million of other-than-temporary-impairment, all of which was recorded as a credit loss in earnings.

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

Included in the held-to-maturity category at December 31, 2011 are approximately \$84.1 million of agency mortgage-backed securities and \$216.3 million of municipal securities at amortized cost.

#### **Counterparty Exposure**

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation in a financial transaction. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National's net counterparty exposure was an asset of \$336.0 million at December 31, 2011.

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### Lending Activities

#### Commercial

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

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

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

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

#### Consumer

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

Home equity loans are secured primarily by second mortgages on residential property of the borrower. The underwriting terms for the home equity product generally permits borrowing availability, in the aggregate, up to 90% of the appraised value of the collateral property at the time of origination. We offer fixed and variable rate home equity loans, with variable rate loans underwritten at fully-indexed rates. Decisions are primarily based on LTV ratios, DTI ratios, liquidity, and credit scores. We do not offer home equity loan products with reduced documentation.

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Automobile loans include loans and leases secured by new or used automobiles. We originate automobile loans and leases primarily on an indirect basis through selected dealerships. We require borrowers to maintain collision insurance on automobiles securing consumer loans, with us listed as loss payee. Our procedures for underwriting automobile loans include an assessment of an applicant's overall financial capacity, including credit history and the ability to meet existing obligations and payments on the proposed loan. Although an applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral security to the proposed loan amount.

### Asset Quality

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

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. At December 31, 2011, we had no concentration of loans in any single industry exceeding 10% of our portfolio and had no exposure to foreign borrowers or sovereign debt. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Illinois and Kentucky. We continue to be affected by weakness in the economy of our principal markets. Management expects that trends in under-performing, criticized and classified loans will be influenced by the degree to which the economy strengthens or weakens.

On January 1, 2011, Old National closed on its acquisition of Monroe Bancorp. As of December 31, 2011, acquired loans totaled \$363.1 million and there was \$2.2 million of other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. Old National reviewed the acquired loans and determined that as of December 31, 2011, \$17.9 million met the definition of criticized, \$9.4 million were considered classified, and \$36.8 million were doubtful. Our current preference would be to work these loans and avoid foreclosure actions unless additional credit deterioration becomes apparent. These assets are included in our summary of under-performing, criticized and classified assets found below.

During the third quarter of 2011, Old National acquired the banking operations of Integra Bank in an FDIC assisted transaction. As of December 31, 2011, acquired loans totaled \$676.9 million and there was \$30.4 million of other real estate owned. The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. At December 31, 2011, approximately \$626.4 million of loans and \$30.4 million of other real estate owned are covered by the loss sharing agreements. As such, eighty percent of losses incurred on these covered assets will be reimbursed to Old National by the FDIC. These covered assets are included in our summary of under-performing, criticized and classified assets found below.

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Summary of under-performing, criticized and classified assets:

**ASSET QUALITY**

(dollars in thousands)	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
<b>Nonaccrual loans</b>					
Commercial	\$ 34,104	\$ 25,488	\$ 24,257	\$ 20,276	\$ 15,654
Commercial real estate	66,187	30,416	24,854	32,118	14,649
Residential real estate	10,247	8,719	9,621	5,474	5,996
Consumer	4,790	6,322	8,284	6,173	4,517
Covered loans (5) (6)	182,880				
<b>Total nonaccrual loans</b>	<b>298,208</b>	<b>70,945</b>	<b>67,016</b>	<b>64,041</b>	<b>40,816</b>
<b>Renegotiated loans not on nonaccrual</b>					
<b>Past due loans still accruing (90 days or more):</b>					
Commercial	358	79	1,754	848	491
Commercial real estate	279		72	143	247
Residential real estate					
Consumer	473	493	1,675	1,917	773
Covered loans (5)	2,338				
<b>Total past due loans</b>	<b>3,448</b>	<b>572</b>	<b>3,501</b>	<b>2,908</b>	<b>1,511</b>
Other real estate owned	7,119	5,591	8,149	2,934	2,876
Other real estate owned, covered (5)	30,443				
<b>Total under-performing assets</b>	<b>\$ 340,543</b>	<b>\$ 77,108</b>	<b>\$ 78,666</b>	<b>\$ 69,883</b>	<b>\$ 45,203</b>
<b>Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans)</b>					
	\$ 204,120	\$ 174,341	\$ 157,063	\$ 180,118	\$ 115,121
Classified loans, covered (5)	200,221				
Other classified assets (3)	106,880	105,572	161,160	34,543	
Criticized loans	80,148	84,017	103,512	124,855	103,210
Criticized loans, covered (5)	23,034				
<b>Total criticized and classified assets</b>	<b>\$ 614,403</b>	<b>\$ 363,930</b>	<b>\$ 421,735</b>	<b>\$ 339,516</b>	<b>\$ 218,331</b>
<b>Asset Quality Ratios including covered assets:</b>					
Non-performing loans/total loans (1) (2)	6.28%	1.90%	1.75%	1.35%	0.87%
Under-performing assets/total loans and foreclosed properties (1)	7.09	2.06	2.05	1.47	0.96
Under-performing assets/total assets	3.96	1.06	0.98	0.89	0.58
Allowance for loan losses/under-performing assets (4)	17.05	93.78	88.41	96.00	124.91
<b>Asset Quality Ratios excluding covered assets:</b>					
Non-performing loans/total loans (1) (2)	2.82	1.90	1.75	1.35	0.87
Under-performing assets/total loans and foreclosed properties (1)	3.01	2.06	2.05	1.47	0.96
Under-performing assets/total assets	1.45	1.06	0.98	0.89	0.58
	45.74	93.78	88.41	96.00	124.91



Allowance for loan losses/  
under-performing assets (4)

- (1) Loans exclude residential loans held for sale and leases held for sale.
- (2) Non-performing loans include nonaccrual and renegotiated loans.
- (3) Includes 8 pooled trust preferred securities, 9 non-agency mortgage-backed securities and 1 corporate security at December 31, 2011.
- (4) Because the acquired loans from both Monroe and Integra were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date.
- (5) The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans and other real estate owned. At December 31, 2011, we expect eighty percent of any losses incurred on these covered assets to be reimbursed to Old National by the FDIC.
- (6) These covered loans are categorized as nonaccrual because the collection of principal or interest is doubtful. Covered loans are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

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Nonaccrual loans increased \$227.3 million from December 31, 2010 to December 31, 2011 primarily as a result of our January 1, 2011 acquisition of Monroe Bancorp and our July 29, 2011 FDIC-assisted acquisition of Integra Bank. Of this increase in nonaccrual loans, \$36.8 million related to the loans acquired from Monroe Bancorp and \$182.9 million related to the covered loans acquired in the Integra Bank acquisition.

Interest income of approximately \$14.3 million and \$4.5 million would have been recorded on nonaccrual and renegotiated loans outstanding at December 31, 2011 and 2010, respectively, if such loans had been accruing interest throughout the year in accordance with their original terms. The amount of interest income actually recorded on nonaccrual and renegotiated loans was \$1.9 million and \$1.8 million in 2011 and 2010, respectively. Approximately \$262.5 million, or 88.0%, of nonaccrual loans were less than thirty days delinquent at December 31, 2011. We had \$11.7 million of renegotiated loans which are included in nonaccrual loans at December 31, 2011 and \$4.8 million of renegotiated loans which were included in nonaccrual loans at December 31, 2010.

Criticized and classified assets increased \$250.5 million from December 31, 2010 to December 31, 2011, primarily as a result of the Monroe Bancorp and Integra Bank acquisitions. Of this increase in criticized and classified assets, \$64.2 million related to the loans acquired from Monroe Bancorp and \$223.3 million related to the covered loans acquired in the Integra Bank transaction. Other classified assets include investment securities that fell below investment grade rating.

Other real estate owned ( OREO ) increased \$32.0 million from December 31, 2010 to December 31, 2011, primarily as a result of the Monroe Bancorp and Integra Bank acquisitions. Of this increase in our OREO balances, \$2.2 million related to the foreclosed properties acquired from Monroe Bancorp and \$30.4 million related to the covered assets acquired in the Integra Bank transaction.

Old National may choose to restructure the contractual terms of certain loans. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit Old National by increasing the ultimate probability of collection.

Any loans that are modified are reviewed by Old National to identify if a troubled debt restructuring ( TDR ) has occurred, which is when for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status. During the twelve months ended December 31, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate of new debt with similar risk, or a permanent reduction of the recorded investment of the loan.

Loans modified in a troubled debt restructuring are typically 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 for six months.

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

For commercial and industrial troubled debt restructurings, an allocated reserve is established within the allowance for loan losses for the difference between the carrying value of the loan and its computed fair value. To determine the fair value of the loan, one of the following methods is selected: (1) the present value of expected cash flows discounted at the loans original effective interest rate, (2) the loan's observable market price, or (3) the fair value of the collateral value, if the loan is collateral dependent. The allocated reserve is established as the difference between the carrying value of the loan and the collectable value. If there are significant changes in the amount or timing of the loan's expected future cash flows, impairment is recalculated and the valuation allowance is adjusted accordingly.

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For consumer and residential troubled debt restructurings, an additional amount is added to the loan loss reserve that represents the difference in the present value of the cash flows between the original terms and the new terms of the modified loan, using the original effective interest rate of the loan as a discount rate.

At December 31, 2011, our troubled debt restructurings consisted of \$7.1 million of commercial loans, \$5.8 million of commercial real estate loans and \$0.1 million of consumer loans. Approximately \$11.7 million of the troubled debt restructuring at December 31, 2011 were included with nonaccrual loans. As of December 31, 2011, Old National has allocated specific reserves of \$1.3 million to commercial loans and \$0.2 million to commercial real estate loans for loans that have been modified in troubled debt restructurings. All of our troubled debt restructurings were included with nonaccrual loans at December 31, 2010 and consisted of \$3.8 million of commercial loans and \$1.0 million of commercial real estate loans.

The terms of certain other loans were modified during the twelve months ended December 31, 2011 that did not meet the definition of a troubled debt restructuring. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under the Company's internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or if the delay in a payment was 90 days or less.

Purchased credit impaired ( PCI ) loans would not be considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the purchased credit impaired loan is being accounted for as part of a pool, it will not be removed from the pool.

In general, once a modified loan is considered a TDR, the loan will always be considered a TDR, and therefore impaired, until it is paid in full, otherwise settled, sold or charged off. However, our policy also permits for loans to be removed from troubled debt restructuring status in the years following the restructuring if the following two conditions are met: (1) The restructuring agreement specifies an interest rate equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk, and (2) the loan is not impaired based on the terms specified by the restructuring agreement.

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The allowance is maintained at a level believed adequate by management to absorb probable losses incurred in the loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, historical loss experience, and assessments of the impact of current economic conditions on the portfolio.

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The activity in our allowance for loan losses is as follows:

**ALLOWANCE FOR LOAN LOSSES**

(dollars in thousands)	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
Balance, January 1	\$ 72,309	\$ 69,548	\$ 67,087	\$ 56,463	\$ 67,790
Loans charged-off:					
Commercial	10,300	11,967	36,682	12,402	7,835
Commercial real estate	12,319	10,196	21,886	21,991	5,855
Residential real estate	1,945	2,296	1,315	1,442	1,613
Consumer credit	10,335	16,848	18,156	15,385	11,635
Write-downs on loans transferred to held for sale			572		5,337
<b>Total charge-offs</b>	<b>34,899</b>	41,307	78,611	51,220	32,275
Recoveries on charged-off loans:					
Commercial	4,330	5,060	4,865	2,689	4,153
Commercial real estate	2,302	2,041	7,458	2,570	1,774
Residential real estate	319	172	135	272	138
Consumer credit	6,226	6,014	5,334	4,849	5,066
<b>Total recoveries</b>	<b>13,177</b>	13,287	17,792	10,380	11,131
<b>Net charge-offs</b>	<b>21,722</b>	28,020	60,819	40,840	21,144
Provision charged to expense	7,473	30,781	63,280	51,464	4,118
Allowance of acquired bank					5,699
<b>Balance, December 31</b>	<b>\$ 58,060</b>	\$ 72,309	\$ 69,548	\$ 67,087	\$ 56,463
<b>Average loans for the year (1)</b>	<b>\$ 4,440,467</b>	\$ 3,722,861	\$ 4,330,247	\$ 4,695,950	\$ 4,805,664
Asset Quality Ratios:					
Allowance/year-end loans (1)	1.22%	1.93%	1.81%	1.41%	1.20%
Allowance/average loans (1)	1.31	1.94	1.61	1.43	1.17
Net charge-offs/average loans (2)	0.49	0.75	1.40	0.87	0.44

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

(2) Net charge-offs include write-downs on loans transferred to held for sale.

Despite the significant increase in impaired assets resulting from the acquisitions during 2011, the allowance for loan losses declined \$14.3 million, or 19.7%, from December 31, 2010 to December 31, 2011. The decrease is primarily attributable to our legacy loan portfolio where we have experienced a decline in outstanding loan balances.

The lower allowance for loan losses and provision expense were attributable to the following factors: (1) the loss factors applied to our performing loan portfolio have decreased during 2011 compared to 2010 as charge-offs were substantially lower, (2) apart from those loans acquired in our two acquisitions, which are substantially accounted for at fair value, our total loans decreased \$16.2 million from December 31, 2010 to December 31, 2011, and (3) the percentage of our loan portfolio consisting of those loans where higher loss factors are applied (commercial and commercial real estate loans) fell to 48% in 2011 compared to 58% in 2010 while the percentage of our loan portfolio consisting of those loans where lower loss factors are applied (residential loans) increased to 21% in 2011 compared to 18% in 2010.

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Net charge-offs totaled \$21.7 million in 2011 and \$28.0 million in 2010. There were no industry segments representing a significant share of total net charge-offs. Net charge-offs to average loans declined to 0.49% for 2011 compared to 0.75% for 2010. The allowance to average loans, which ranged from 1.17% to 1.94% for the last five years, was 1.31% at December 31, 2011. Management will continue its efforts to reduce the level of non-performing loans and may consider the possibility of additional sales of troubled and non-performing loans, which could result in additional write-downs to the allowance for loan losses.

Because the acquired loans from both Monroe Bancorp and Integra Bank were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date. We would expect that as the fair value mark is accreted into income over future periods, a reserve will be established to absorb credit deterioration or adverse changes in expected cash flows. Through December 31, 2011, \$2.0 million had been reserved for these purchased credits from Monroe Bancorp.

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The following table provides additional details of the following components of the allowance for loan losses, including FAS 5 (Accounting for Contingencies), FAS 114 (Accounting by Creditors for Impairment of a Loan) and SOP 03-3 (Accounting for Certain Loans or Debt Securities Acquired in a Transfer):

	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Legacy		Covered		Purchased Loans			SOP
(dollars in thousands)	FAS 5	FAS 114	FAS 5	FAS 114	SOP 03-3	FAS 5	FAS 114	03-3
Loan balance	\$ 3,665,046	\$ 62,186	\$ 159,804	\$ 452	\$ 467,417	\$ 332,573	\$ 15,796	\$ 63,929
Remaining purchase discount			11,297	2,280	209,414	9,649	5,154	15,072
Allowance, January 1, 2011	57,732	14,577						
Charge-offs	(14,337)	(15,329)			(802)	(161)	(4,100)	(170)
Recoveries	7,557	4,123			821	115	330	231
Provision expense	(7,032)	7,656			924	371	3,937	1,617
Allowance, December 31, 2011	43,920	11,027			943	325	167	1,678

We also maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. The \$4.8 million reserve for unfunded loan commitments at December 31, 2011 is classified as a liability account on the balance sheet. The reserve for unfunded loan commitments was \$3.8 million at December 31, 2010. The higher reserve is the result of an increase in unfunded commitments associated with the acquisitions of Monroe Bancorp and Integra Bank.

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

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

	000000	000000	000000	000000	000000	000000	000000	000000
	2011		2010		2009		2008	
(dollars in thousands)	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
Commercial	\$ 19,959	25.5 %	\$ 26,204	32.3 %	\$ 26,869	33.6 %	\$ 29,254	39.9 %
Commercial real estate	26,862	22.4	32,654	25.2	27,138	27.7	22,362	24.2
Residential real estate	3,516	20.9	2,309	17.8	1,688	10.5	2,067	10.4
Consumer credit	6,780	18.1	11,142	24.7	13,853	28.2	13,404	25.5
Covered loans	943	13.1						
Total	\$ 58,060	100.0 %	\$ 72,309	100.0 %	\$ 69,548	100.0 %	\$ 67,087	100.0 %

**Market Risk**

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

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

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

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

adjusting balance sheet mix or altering interest rate characteristics of assets and liabilities;

changing product pricing strategies;

modifying characteristics of the investment securities portfolio; or

using derivative financial instruments, to a limited degree.

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

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

	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Changes in Net Interest Income								
	One Year Horizon				Two Year Cumulative Horizon				
	12/31/2011		12/31/2010		12/31/2011		12/31/2010		
	\$ Change		\$ Change		\$ Change		\$ Change		
Immediate Change in the Level of Interest Rates	(000s)	% Change	(000s)	% Change	(000s)	% Change	(000s)	% Change	
+ 3.00%	(10,636)	-4.17%	(3,084)	-1.37%	(4,365)	-0.87%	6,447	1.42%	
+ 2.00%	(4,657)	-1.82%	(24)	-0.01%	5,326	1.06%	10,449	2.30%	
+ 1.00%	1,288	0.50%	(631)	-0.28%	10,839	2.16%	4,062	0.89%	
- 1.00%	NA	NA	NA	NA	NA	NA	NA	NA	

At December 31, 2011, our simulated exposure to an increase in interest rates shows that an immediate increase in rates of 1.00% will increase our net interest income by \$1.3 million or .50% over a one year horizon compared to a flat interest rate scenario. Furthermore, rate increases of 2.00% and 3.00% would cause net interest income to decline by 1.82% and 4.17% respectively. Over a two-year horizon, the model reflects increases in net interest income for the up 1.00% and 2.00% scenarios of 2.16% and 1.06% respectively. If rates increase by 3.00%, our model indicates that net interest income would fall by .87%. As a result of the already low interest rate environment, we did not include a 1.00% falling scenario.

The changes in the rate sensitivity of the balance sheet from December 31, 2010 to December 31, 2011, are primarily attributable to the acquisitions of Monroe Bancorp and Integra Bank, a smaller investment portfolio, less reliance on wholesale funding, and significant changes in the mix of assets and liabilities.

The Company's interest rate risk modeling indicates that its net interest income would be negatively impacted by a scenario where short-term interest rates remain constant while long-term rates decrease by up to 2% at the thirty year point. Assuming such a scenario with a static balance sheet, the Company's net income will decrease by \$3.4 million or 1.34% in year one and \$7.4 million or 3.01% in year two compared to the current interest rate scenario. This decrease in net interest income is primarily due to new or re-priced assets being acquired or re-priced on the balance sheet at lower interest rate levels while the interest rates on much of the deposits and borrowings funding these assets have already re-priced to low levels.





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We continue to execute strategies to position the Company in the current low rate environment to be relatively neutral to interest rate increases. For example, management has focused on reducing the size and duration of the investment portfolio at the same time it has increased its holdings of fixed-rate, residential real estate mortgages. Modeling results as of December 31, 2011, indicate that we remain within our Company's acceptable risk tolerance levels.

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

	September 30, 12/31/2011		September 30, 12/31/2010	
	\$ Change (millions)	% Change	\$ Change (millions)	% Change
<b>Immediate Change in the Level of Interest Rates</b>				
+ 3.00%	20	2.86%	(145)	-17.42%
+ 2.00%	38	5.49%	(86)	-10.36%
+ 1.00%	62	8.93%	(30)	-3.57%
- 1.00%	NA	NA	NA	NA

At December 31, 2011, Old National's Economic Value of Equity (EVE) scenarios indicated positive changes to EVE in all interest rate scenarios. As of December 31, 2010, EVE changes were negative in all rate scenarios. As noted previously, these changes in EVE modeling results were driven primarily by the acquisitions of Monroe Bancorp and Integra Bank, a smaller investment portfolio and changes in the mix of the balance sheet. Modeling results at December 31, 2011, indicate that we remain within our Company's acceptable risk tolerance levels.

Because the models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect our net interest income and value, we recognize that model outputs are not guarantees of actual results. For this reason, we model many different combinations of interest rates and balance sheet assumptions to understand its overall sensitivity to market interest rate changes.

We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. We also provide derivatives to our commercial customers in connection with managing interest rate risk. Our derivatives had an estimated fair value gain of \$7.1 million at December 31, 2011, compared to an estimated fair value gain of \$4.4 million at December 31, 2010. In addition, the notional amount of derivatives increased by \$58.1 million from December 31, 2010, primarily as a result of derivative instruments acquired from Integra. See Note 18 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.

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

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

Fitch Rating Service kept their long-term outlook rating as stable (unchanged) during the latest rating review on March 15, 2011

Dominion Bond Rating Services has issued a stable outlook as of February 3, 2012

Moody's Investor Service did not rate Old National Bancorp as of December 20, 2010

Moody's Investor Service downgraded Old National Bank's Long Term Rating from A1 to A2 and changed its outlook from Negative to Stable on November 1, 2011. Old National Bank's Short Term Rating was unchanged.

The senior debt ratings of Old National and Old National Bank at December 31, 2011, are shown in the following table.

**SENIOR DEBT RATINGS**

	September 30, Moody's Investor Service Long term	September 30, Short term	September 30, Fitch, Inc. Long term	September 30, Short term	September 30, Dominion Bond Rating Svc. Long term	September 30, Short term
Old National Bancorp	N/A	N/A	BBB	F2	BBB (high)	R-2 (high)
Old National Bank	A2	P-1	BBB+	F2	A (low)	R-1 (low)
N/A = not applicable						

As of December 31, 2011, Old National Bank had the capacity to borrow \$720.6 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 deposit and short-term and medium-term bank notes as well.

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

Old National opted in to the Temporary Account Guarantee Program (TAGP) offered in 2008 as a part of Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program (TLGP). The coverage under the TAGP program has been made permanent and all funds in a noninterest-bearing transaction account are insured in full by the FDIC through December 31, 2012. This unlimited coverage is in

addition to, and separate from, the coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules.

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Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. During the first quarter of 2009 Old National received a \$40 million dividend from the Bank Subsidiary to repurchase the \$100 million of non-voting preferred shares from the Treasury. In order to pay this special dividend, Old National Bank was required to seek approval from its regulatory authority. Such approval was also obtained for the payment of dividends during 2010 and 2011. Prior regulatory approval to pay dividends will not be required in 2012.

**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 \$1.220 billion and standby letters of credit of \$73.3 million at December 31, 2011. At December 31, 2011, approximately \$1.173 billion of the loan commitments had fixed rates and \$47 million had floating rates, with the fixed interest rates ranging from 2% to 21%. At December 31, 2010, loan commitments were \$1.106 billion and standby letters of credit were \$74.3 million. The term of these off-balance sheet arrangements is typically one year or less.

During the second quarter of 2007, we entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of \$8.7 million at December 31, 2011.

**CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES**

The following table presents our significant fixed and determinable contractual obligations and significant commitments at December 31, 2011. Further discussion of each obligation or commitment is included in the referenced note to the consolidated financial statements.

**CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES**

(dollars in thousands)	September 30,	September 30,	September 30,		September 30,	September 30,
	Note Reference	One Year or Less	One to Three Years	Payments Due In Three to Five Years	Over Five Years	Total
Deposits without stated maturity		\$ 5,163,899	\$	\$	\$	\$ 5,163,899
IRAs, consumer and brokered certificates of deposit	9	793,117	456,656	181,731	16,160	1,447,664
Short-term borrowings	10	424,849				424,849
Other borrowings	11	688	118,178	84,193	87,715	290,774
Fixed interest payments (a)		11,072	17,616	11,409	37,458	77,555
Operating leases	19	33,136	61,741	57,409	269,466	421,752
Other long-term liabilities (b)		500				500

(a) Our subordinated notes, certain trust preferred securities and certain Federal Home Loan Bank advances have fixed rates ranging from 1.24% to 10.00%. All of our other long-term debt is at Libor based variable rates at December 31, 2011. The projected variable interest assumes no increase in Libor rates from December 31, 2011.

(b) Amount expected to be contributed to the pension plans in 2012. Amounts for 2013 and beyond are unknown at this time. We rent certain premises and equipment under operating leases. See Note 19 to the consolidated financial statements for additional information on long-term lease arrangements.

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. ( Integra ) in an FDIC assisted transaction. The physical branch locations and leases were not immediately acquired by Old National in the acquisition. Old National had an option, exercisable for 90

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days following the closing of the acquisition, to acquire, at fair value, any bank premises that were owned by, and to assume any leases relating to bank premises held by Integra. Old National reviewed the bank premises and related leases of Integra and acquired 17 of the Integra facilities.

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 18 to the consolidated financial statements.

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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 19 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 12 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 this Annual Report on Form 10-K for the year ended December 31, 2011. 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.

### Goodwill and Intangibles

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

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

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

### Acquired Impaired Loans

**Description.** Loans acquired with evidence of credit deterioration since inception and for which it is probable that all contractual payments will not be received are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ( ASC 310-30 ). These loans are recorded at fair value at the time of acquisition, with no carryover of the related allowance for loan losses. Fair value of acquired loans is determined using a discounted cash flow methodology based on assumptions

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about the amount and timing of principal and interest payments, principal prepayments and principal defaults and losses, and current market rates. In recording the acquisition date fair values of acquired impaired loans, management calculates a non-accretable difference (the credit component of the purchased loans) and an accretable difference (the yield component of the purchased loans). Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on pools of loans sharing common risk characteristics, which are treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its pools of loans determined using the effective interest rates has decreased significantly and if so, recognizes a provision for loan loss in its consolidated statement of income. For any significant increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the pool's remaining life.

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

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

## Allowance for Loan Losses

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

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

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



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

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

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

Management's analysis of probable losses in the portfolio at December 31, 2011, resulted in a range for allowance for loan losses of \$7.4 million. The range pertains to general (FASB ASC 310, Receivables/SFAS 5) reserves for both retail and performing commercial loans. Specific (FASB ASC 310, Receivables/SFAS 114) reserves do not have a range of probable loss. Due to the risks and uncertainty associated with the economy, our projection of FAS 5 loss rates inherent in the portfolio, and our selection of representative historical periods, we establish a range of probable outcomes (a high-end estimate and a low-end estimate) and evaluate our position within this range. The potential effect to net income based on our position in the range relative to the high and low endpoints is a decrease of \$1.2 million and an increase of \$3.6 million, respectively, after taking into account the tax effects. These sensitivities are hypothetical and are not intended to represent actual results.

**Derivative Financial Instruments**

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

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

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

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### Income Taxes

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

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

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

### Valuation of Securities

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

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

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

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

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

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

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

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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*).

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An impairment that is an other-than-temporary-impairment is a decline in the fair value of an investment below its amortized cost attributable to factors that indicate the decline will not be recovered over the anticipated holding period of the investment. Other-than-temporary-impairments result in reducing the security's carrying value by the amount of credit loss. The credit component of the other-than-temporary-impairment loss is realized through the statement of income and the remainder of the loss remains in other comprehensive income.

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

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

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

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

The information contained under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk on page 46 of this Form 10-K is incorporated herein by reference in response to this item.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA REPORT OF MANAGEMENT**

#### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

Management is responsible for the preparation of the financial statements and related financial information appearing in this annual report on Form 10-K. The financial statements and notes have been prepared in conformity with accounting principles generally accepted in the United States of America and include some amounts which are estimates based upon currently available information and management's judgment of current conditions and circumstances. Financial information throughout this annual report on Form 10-K is consistent with that in the financial statements.

Management maintains a system of internal accounting controls which is believed to provide, in all material respects, reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized and recorded, and the financial records are reliable for preparing financial statements and maintaining accountability for assets. In addition, Old National has a Code of Business Conduct and Ethics, a Senior Financial and Executive Officer Code of Ethics and Corporate Governance Guidelines that outline high levels of ethical business standards. We also had a third party perform an independent validation of the Company's ethics program. Old National has also appointed a Chief Ethics Officer. All systems of internal accounting controls are based on management's judgment that the cost of controls should not exceed the benefits to be achieved and that no system can provide absolute assurance that control objectives are achieved. Management believes Old National's system provides the appropriate balance between cost of controls and the related benefits.

In order to monitor compliance with this system of controls, Old National maintains an extensive internal audit program. Internal audit reports are issued to appropriate officers and significant audit exceptions, if any, are reviewed with management and the Audit Committee of the Board of Directors.



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The Board of Directors, through an Audit Committee comprised solely of independent outside directors, oversees management's discharge of its financial reporting responsibilities. The Audit Committee meets regularly with Old National's independent registered public accounting firm, Crowe Horwath LLP, and the managers of internal audit and loan review. During these meetings, the committee meets privately with the independent registered public accounting firm as well as with internal audit and loan review personnel to review accounting, auditing, loan and financial reporting matters. The appointment of the independent registered public accounting firm is made by the Audit Committee of the Board of Directors.

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

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Old National is responsible for establishing and maintaining adequate internal control over financial reporting. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Old National's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on that assessment Old National has concluded that, as of December 31, 2011, the company's internal control over financial reporting is effective. Old National's independent registered public accounting firm has audited the effectiveness of the company's internal control over financial reporting as of December 31, 2011 as stated in their report which follows.

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**Crowe Horwath LLP**

Independent Member Crowe Horwath International

Board of Directors and Shareholders

Old National Bancorp

Evansville, Indiana

We have audited the accompanying consolidated balance sheets of Old National Bancorp as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited Old National Bancorp's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Old National Bancorp's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Old National Bancorp as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Old National Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

Louisville, Kentucky

Crowe Horwath LLP

February 24, 2012



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

(dollars and shares in thousands, except per share data)	December 31,	
	2011	2010
<b>Assets</b>		
Cash and due from banks	\$ 191,626	\$ 107,368
Money market and other interest-earning investments	31,246	144,184
Total cash and cash equivalents	222,872	251,552
Trading securities at fair value	2,816	
Securities available-for-sale, at fair value	2,071,276	1,960,222
Securities held-to-maturity, at amortized cost (fair value \$507,699 and \$625,643 respectively)	484,590	638,210
Federal Home Loan Bank stock, at cost	30,835	31,937
Residential loans held for sale, at fair value	4,528	3,819
Loans, net of unearned income	4,140,843	3,743,451
Covered loans, net of discount	626,360	
Total loans	4,767,203	3,743,451
Allowance for loan losses	(57,117)	(72,309)
Allowance for loan losses covered loans	(943)	
Net loans	4,709,143	3,671,142
FDIC indemnification asset	147,566	
Premises and equipment, net	71,870	48,775
Accrued interest receivable	44,801	42,971
Goodwill	253,177	167,884
Other intangible assets	33,624	26,178
Company-owned life insurance	248,693	226,192
Other real estate owned	7,119	5,591
Other real estate owned covered	30,443	
Assets held for sale	16,861	
Other assets	229,469	189,419
Total assets	\$ 8,609,683	\$ 7,263,892
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing demand	\$ 1,728,546	\$ 1,276,024
Interest-bearing:		
NOW	1,569,084	1,297,443
Savings	1,570,422	1,079,376
Money market	295,847	334,825
Time	1,447,664	1,475,257
Total deposits	6,611,563	5,462,925
Short-term borrowings	424,849	298,232
Other borrowings	290,774	421,911
Accrued expenses and other liabilities	248,941	202,019

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Total liabilities	<b>7,576,127</b>	6,385,087
Commitments and contingencies (Note 19)		
<b>Shareholders' Equity</b>		
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding		
Common stock, \$1 per share stated value, 150,000 shares authorized, 94,654 and 87,183 shares issued and outstanding, respectively	<b>94,654</b>	87,183
Capital surplus	<b>834,033</b>	748,873
Retained earnings	<b>89,865</b>	44,018
Accumulated other comprehensive income (loss), net of tax	<b>15,004</b>	(1,269)
Total shareholders' equity	<b>1,033,556</b>	878,805
Total liabilities and shareholders' equity	<b>\$ 8,609,683</b>	\$ 7,263,892

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

**Table of Contents****OLD NATIONAL BANCORP****CONSOLIDATED STATEMENTS OF INCOME**

(dollars and shares in thousands, except per share data)	Years Ended December 31,		
	2011	2010	2009
<b>Interest Income</b>			
Loans including fees:			
Taxable	\$ 228,480	\$ 175,607	\$ 198,940
Nontaxable	9,419	9,631	19,053
Investment securities, available-for-sale:			
Taxable	51,682	71,057	90,087
Nontaxable	13,571	16,294	22,532
Investment securities, held-to-maturity, taxable	23,079	23,828	9,932
Money market and other interest-earning investments	362	431	133
<b>Total interest income</b>	<b>326,593</b>	<b>296,848</b>	<b>340,677</b>
<b>Interest Expense</b>			
Deposits	35,911	48,608	67,628
Short-term borrowings	550	662	1,410
Other borrowings	17,259	29,162	40,240
<b>Total interest expense</b>	<b>53,720</b>	<b>78,432</b>	<b>109,278</b>
<b>Net interest income</b>	<b>272,873</b>	<b>218,416</b>	<b>231,399</b>
Provision for loan losses	7,473	30,781	63,280
<b>Net interest income after provision for loan losses</b>	<b>265,400</b>	<b>187,635</b>	<b>168,119</b>
<b>Noninterest Income</b>			
Wealth management fees	20,460	16,120	15,963
Service charges on deposit accounts	51,862	50,018	55,196
ATM fees	25,199	22,967	20,472
Mortgage banking revenue	3,250	2,230	6,238
Insurance premiums and commissions	36,957	36,463	37,851
Investment product fees	11,068	9,192	8,515
Company-owned life insurance	5,322	4,052	2,355
Net securities gains	8,691	17,124	27,251
Total other-than-temporary impairment losses	(3,252)	(5,060)	(68,090)
Loss recognized in other comprehensive income	1,843	1,133	43,295
Impairment losses recognized in earnings	(1,409)	(3,927)	(24,795)
Gain on derivatives	974	1,492	719
Gain on sale leaseback transactions	7,864	6,452	6,301
Change in FDIC indemnification asset	426		
Other income	12,219	7,967	7,394
<b>Total noninterest income</b>	<b>182,883</b>	<b>170,150</b>	<b>163,460</b>
<b>Noninterest Expense</b>			
Salaries and employee benefits	189,539	170,601	181,368
Occupancy	51,054	46,410	47,064
Equipment	11,720	10,641	10,440

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Marketing	5,990	5,720	9,578
Data processing	22,971	21,409	20,700
Communication	10,406	9,803	10,922
Professional fees	14,959	8,253	9,491
Loan expense	4,734	3,936	4,335
Supplies	3,762	2,935	4,294
Loss on extinguishment of debt	789	6,107	3,941
FDIC assessment	7,523	8,370	12,447
Amortization of intangibles	8,829	6,130	5,988
Other expense	16,245	13,990	18,388
<b>Total noninterest expense</b>	<b>348,521</b>	314,305	338,956
Income (loss) before income taxes	99,762	43,480	(7,377)
Income tax expense (benefit)	27,302	5,266	(21,114)
<b>Net income</b>	<b>72,460</b>	38,214	13,737
Preferred stock dividends and discount accretion			(3,892)
<b>Net income available to common stockholders</b>	<b>\$ 72,460</b>	\$ 38,214	\$ 9,845
Net income per common share:			
Basic earnings per share	\$ 0.76	\$ 0.44	\$ 0.14
Diluted earnings per share	0.76	0.44	0.14
Weighted average number of common shares outstanding			
Basic	94,467	86,785	71,314
Diluted	94,772	86,928	71,367
Dividends per common share	0.28	0.28	0.44

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

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

(dollars and shares in thousands)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity	Comprehensive Income
<b>Balance, January 1, 2009</b>	\$ 97,358	\$ 66,321	\$ 569,875	\$ 50,815	\$ (53,504)	\$ 730,865	
Comprehensive income							
Net income				13,737		13,737	\$ 13,737
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					32,792	32,792	32,792
Transferred securities, net of tax					812	812	812
Reclassification adjustment on cash flow hedges, net of tax					667	667	667
Net loss, settlement cost and amort. of net (gain) loss on defined benefit pension plans, net of tax					(1,133)	(1,133)	(1,133)
<b>Total comprehensive income</b>							<b>\$ 46,875</b>
Dividends common stock				(30,380)		(30,380)	
Dividends preferred stock				(1,250)		(1,250)	
Common stock issued		20,900	176,856			197,756	
Preferred stock repurchased	(97,358)			(2,642)		(100,000)	
Common stock repurchased		(28)	(325)			(353)	
Warrants repurchased			(1,200)			(1,200)	
Stock based compensation expense			1,310			1,310	
Stock activity under incentive comp plans		(11)	259	(45)		203	
<b>Balance, December 31, 2009</b>		<b>87,182</b>	<b>746,775</b>	<b>30,235</b>	<b>(20,366)</b>	<b>843,826</b>	
Comprehensive income							
Net income				38,214		38,214	\$ 38,214
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					11,501	11,501	11,501
Transferred securities, net of tax					4,855	4,855	4,855
Reclassification adjustment on cash flow hedges, net of tax					659	659	659
Net loss, settlement cost and amort. of net (gain) loss on defined benefit pension plans, net of tax					2,082	2,082	2,082
<b>Total comprehensive income</b>							<b>\$ 57,311</b>
Dividends common stock				(24,361)		(24,361)	
Common stock issued		19	178			197	
Common stock repurchased		(41)	(664)			(705)	
Stock based compensation expense			2,369			2,369	
Stock activity under incentive comp plans		23	215	(70)		168	
<b>Balance, December 31, 2010</b>		<b>87,183</b>	<b>748,873</b>	<b>44,018</b>	<b>(1,269)</b>	<b>878,805</b>	
Comprehensive income							
Net income				72,460		72,460	\$ 72,460

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Other comprehensive income (1)						
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax						20,823
Transferred securities, net of tax						(922)
Reclassification adjustment on cash flow hedges, net of tax						(701)
Net loss, settlement cost and amort. of net (gain) loss on defined benefit pension plans, net of tax						(2,927)
Total comprehensive income						\$ 88,733
Acquisition Monroe Bancorp	7,575	82,495				90,070
Dividends common stock			(26,513)			(26,513)
Common stock issued	22	200				222
Common stock repurchased	(145)	(1,381)				(1,526)
Stock based compensation expense		3,436				3,436
Stock activity under incentive comp plans	19	410	(100)			329
<b>Balance, December 31, 2011</b>	<b>\$</b>	<b>\$ 94,654</b>	<b>\$ 834,033</b>	<b>\$ 89,865</b>	<b>\$ 15,004</b>	<b>\$ 1,033,556</b>

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

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

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

(dollars in thousands)	000000 2011	000000 2010	000000 2009
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 72,460	\$ 38,214	\$ 13,737
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	9,674	8,990	8,853
Amortization and impairment of other intangible assets	8,829	6,129	6,508
Net premium (discount) amortization on investment securities	12,135	7,590	2,188
Change in FDIC indemnification asset	426		
Stock compensation expense	3,436	2,369	1,310
Provision for loan losses	7,473	30,781	63,280
Net securities gains	(8,691)	(17,124)	(27,251)
Impairment on available-for-sale securities	1,409	3,927	24,795
Gain on sale leasebacks	(7,864)	(6,452)	(6,301)
Gain on derivatives	(974)	(1,492)	(719)
Net gains on sales and write-downs of loans and other assets	(2,677)	(1,410)	(1,141)
(Gain) loss on retirement of debt	789	6,107	3,941
Increase in cash surrender value of company-owned life insurance	(5,295)	(1,540)	(1,526)
Residential real estate loans originated for sale	(84,303)	(57,523)	(259,664)
Proceeds from sale of residential real estate loans	93,757	72,773	262,784
(Increase) decrease in interest receivable	4,725	6,369	(278)
(Increase) decrease in other assets	26,161	16,797	(44,008)
Increase (decrease) in accrued expenses and other liabilities	12,276	(17,995)	(6,212)
Total adjustments	71,286	58,296	26,559
Net cash flows provided by operating activities	143,746	96,510	40,296
<b>Cash Flows From Investing Activities</b>			
Cash and cash equivalents of acquired banks	398,558		389,917
Payments related to branch divestiture	(106,392)		
Purchase of trust assets	(1,301)		
Net cash paid in FDIC-assisted transaction	(151,264)		
Purchases of investment securities available-for-sale	(550,934)	(1,106,040)	(2,274,090)
Purchases of investment securities held-to-maturity		(255,828)	(98,544)
Purchase of loans		(7,660)	(8,024)
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	521,553	1,046,431	697,082
Proceeds from sale of trading securities	1,078		
Proceeds from sales of investment securities available-for-sale	545,995	481,471	1,042,138
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	154,675	150,837	29,230
Proceeds from redemption of FHLB stock	18,622	4,153	5,000
Proceeds from sale of loans and leases	5,364	3,627	259,127
Net principal collected from (loans made to) loan customers	180,358	123,308	562,452
Proceeds from sale of premises and equipment and other assets	487	32	405
Proceeds from sale leaseback of real estate		3,697	10,836
Purchases of premises and equipment and other assets	(11,486)	(7,460)	(13,944)
Net cash flows provided by (used in) investing activities	1,005,313	436,568	601,585

**Cash Flows From Financing Activities**

Net increase (decrease) in deposits and short-term borrowings:			
Deposits	(841,885)	(440,563)	55,669
Short-term borrowings	56,434	(32,912)	(318,479)
Payments for maturities on other borrowings	(153,383)	(75,821)	(5,264)
Proceeds from issuance of other borrowings		75,000	
Payments related to retirement of debt	(211,228)	(279,649)	(133,949)
Cash dividends paid on common stock	(26,513)	(24,361)	(30,380)
Cash dividends paid on preferred stock			(1,514)
Common stock repurchased	(1,526)	(705)	(353)
Proceeds from exercise of stock options, including tax benefit	140	12	97
Repurchase of TARP preferred stock and warrants			(101,200)
Common stock issued	222	197	197,756
Net cash flows used in financing activities	(1,177,739)	(778,802)	(337,617)
Net increase (decrease) in cash and cash equivalents	(28,680)	(245,724)	304,264
Cash and cash equivalents at beginning of period	251,552	497,276	193,012
<b>Cash and cash equivalents at end of period</b>	<b>\$ 222,872</b>	<b>\$ 251,552</b>	<b>\$ 497,276</b>

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



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**OLD NATIONAL BANCORP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NATURE OF OPERATIONS**

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

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

**BASIS OF PRESENTATION**

The accompanying consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National ) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, valuation and impairment of securities, goodwill and intangibles, derivative financial instruments, and income taxes are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years ended December 31, 2011, 2010 and 2009.

All significant intercompany transactions and balances have been eliminated. A summary of the more significant accounting and reporting policies used in preparing the statements is presented below.

**TRADING SECURITIES**

Trading securities consist of investments in various mutual funds held in grantor trusts formed by Monroe Bancorp in connection with a deferred compensation plan. These mutual funds are recorded as trading securities at fair value. Gains and losses are included in net securities gains.

**INVESTMENT SECURITIES**

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

***Other-Than-Temporary- Impairment*** Management evaluates securities for other-than-temporary-impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer including an evaluation of credit ratings, (3) whether the market decline was affected by macroeconomic conditions, (4) the intent of the Company to sell a security, and (5) whether it is more likely than not the Company will have to sell the security before recovery of its cost basis. If the Company intends to sell an impaired security, the Company records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost. If a security is determined to be other-than-

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temporarily-impaired, but the Company does not intend to sell the security and it is not more likely than not that it will be required to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income. See Note 3 to the consolidated financial statements for a detailed description of the quarterly evaluation process.

### **FEDERAL HOME LOAN BANK (FHLB) STOCK**

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

### **RESIDENTIAL LOANS HELD FOR SALE**

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

### **LOANS**

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

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

### **ALLOWANCE FOR LOAN LOSSES**

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses incurred in the loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, assessments of the impact of current economic conditions on the portfolio, and historical loss experience. The allowance is increased through a provision charged to operating expense. Loans deemed to be uncollectible are charged to the allowance. Recoveries of loans previously charged-off are added to the allowance.

For all loan classes, a loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Old National's policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status.

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Acquired loans accounted for under FASB ASC Topic 310-30 accrue interest, even though they may be contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period covered loan loss provision or prospective yield adjustments.

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

For all portfolio segments, the general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most relevant three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Further information regarding Old National's policies and methodology used to estimate the allowance for loan losses is presented in Note 5.

## **PREMISES AND EQUIPMENT**

Premises and equipment are stated at cost less accumulated depreciation. Land is stated at cost. Depreciation is charged to operating expense over the useful lives of the assets, principally on the straight-line method. Useful lives for premises and equipment are as follows: buildings and building improvements 15 to 39 years; and furniture and equipment 3 to 10 years. Leasehold improvements are depreciated over the lesser of their useful lives or the term of the lease. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Interest costs on construction of qualifying assets are capitalized.

Premises and equipment are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are adjusted to fair value. Such impairments are included in other expense.

## **GOODWILL AND OTHER INTANGIBLE ASSETS**

The excess of the cost of acquired entities over the fair value of identifiable assets acquired less liabilities assumed is recorded as goodwill. In accordance with FASB ASC 350 (SFAS No. 142, *Goodwill and Other Intangible Assets*), amortization on goodwill and indefinite-lived assets is not recorded. However, the recoverability of goodwill and other intangible assets are annually tested for impairment. Other intangible assets, including core deposits and customer business relationships, are amortized primarily on an accelerated cash flow basis over their estimated useful lives, generally over a period of 7 to 25 years.

Old National recorded \$0.5 million of impairment of intangibles during the years ended December 31, 2009 due to the loss of an unrelated insurance client at one of its insurance subsidiaries. Such impairments are included in other expense.

## **COMPANY OWNED LIFE INSURANCE**

Old National has purchased life insurance policies on certain key executives. The Company records company owned life insurance at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The amount of company owned life insurance at December 31, 2011 and 2010 was \$248.7 million and \$226.2 million, respectively.

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

The accrued net settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, consistent with the item being hedged.

Old National formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair-value or cash-flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The Company discontinues hedge accounting prospectively when it is determined that (1) the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item; (2) the derivative expires, is sold, or terminated; (3) the derivative instrument is de-designated as a hedge because the forecasted transaction is no longer probable of occurring; (4) a hedged firm commitment no longer meets the definition of a firm commitment; (5) or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued, the future changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transaction is still expected to occur, changes in value that were accumulated in other comprehensive income are amortized or accreted into earnings over the same periods which the hedged transactions will affect earnings.

Old National enters into various stand-alone mortgage-banking derivatives in order to hedge the risk associated with the fluctuation of interest rates. Changes in fair value are recorded as mortgage banking revenue. Old National also enters into various stand-alone derivative contracts to provide derivative products to customers which are carried at fair value with changes in fair value recorded as other noninterest income.

Old National is exposed to losses if a counterparty fails to make its payments under a contract in which Old National is in the net receiving position. Old National anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. In addition, Old National obtains collateral above certain thresholds of the fair value of its hedges for each counterparty based upon their credit standing. All of the contracts to which Old National is a party settle monthly, quarterly or semiannually. Further, Old National has netting agreements with the dealers with which it does business.

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**CREDIT-RELATED FINANCIAL INSTRUMENTS**

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

**FORECLOSED ASSETS**

Other assets include real estate properties acquired as a result of foreclosure and repossessed personal property and are initially recorded at the fair value of the property less estimated cost to sell. Any excess recorded investment over the fair value of the property received is charged to the allowance for loan losses. Any subsequent write-downs are charged to expense, as are the costs of operating the properties. Such costs are not material to Old National's results of operation. The amount of foreclosed assets at December 31, 2011 and 2010 was \$37.6 million and \$5.6 million, respectively. Included in foreclosed assets at December 31, 2011 is approximately \$30.4 million of covered other real estate owned from the Integra Bank acquisition (see discussion below regarding covered assets).

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

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

**COVERED ASSETS, LOSS SHARE AGREEMENT AND INDEMNIFICATION ASSET**

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC assisted transaction. As part of the purchase and assumption agreement, the Company and the FDIC entered into loss sharing agreements (each, a loss sharing agreement and collectively, the loss sharing agreements), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), other real estate owned (OREO) and up to 90 days of certain accrued interest on loans. The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 80% of losses up to \$275.0 million, losses in excess of \$275.0 million up to \$467.2 million at 0% reimbursement, and 80% of losses in excess of \$467.2 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC has reimbursed the Bank under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

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

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Because the FDIC will reimburse the Company for losses incurred on certain acquired loans, an indemnification asset (FDIC loss share receivable) is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The loss share agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. The carrying value of the indemnification asset at December 31, 2011 was \$147.6 million.

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

**COMPREHENSIVE INCOME**

Comprehensive income includes all changes in equity during a period, except those resulting from investments by and distributions to owners. Following is a summary of other comprehensive income for the years ended December 31, 2011, 2010 and 2009.

(dollars in thousands)	September 30, 2011	September 30, 2010	September 30, 2009
Net income	\$ 72,460	\$ 38,214	\$ 13,737
Other comprehensive income			
Change in securities available for sale:			
Unrealized holding gains (losses) arising during the period	43,221	43,078	99,164
Reclassification for securities transferred to held-to-maturity		(9,371)	(1,791)
Reclassification adjustment for securities (gains) losses realized in income	(8,691)	(17,124)	(27,251)
Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income	(1,843)	(1,133)	(43,295)
Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income	1,409	3,927	24,795
Income tax effect	(13,273)	(7,876)	(18,830)
Change in securities held-to-maturity:			
Fair value adjustment for securities transferred from available-for-sale		9,371	1,791
Amortization of fair value previously recognized into accumulated other comprehensive income	(1,535)	(1,284)	(438)
Income tax effect	613	(3,232)	(541)
Cash flow hedges:			
Net unrealized derivative gains (losses) on cash flow hedges	(1,387)	807	821
Reclassification adjustment on cash flow hedges	216	288	288
Income tax effect	470	(436)	(442)
Defined benefit pension plans:			
Net loss, settlement cost and amortization of net (gain) loss recognized in income	(4,878)	3,469	(1,889)
Income tax effect	1,951	(1,387)	756
Total other comprehensive income (loss)	16,273	19,097	33,138
Comprehensive income	\$ 88,733	\$ 57,311	\$ 46,875

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The following table summarizes the changes within each classification of accumulated other comprehensive income ( AOCI ) for the years ended December 31, 2011 and 2010:

	September 30, AOCI at December 31, 2009	September 30, Other Comprehensive Income	September 30, AOCI at December 31, 2010	September 30, Other Comprehensive Income	September 30, AOCI at December 31, 2011
Unrealized gains (losses) on available-for-sale securities	\$ 19,789	\$ 12,173	\$ 31,962	\$ 21,949	\$ 53,911
Unrealized losses on securities for which other-than-temporary-impairment has been recognized	(27,501)	(672)	(28,173)	(1,126)	(29,299)
Unrealized gains (losses) on held-to-maturity securities	812	4,855	5,667	(922)	4,745
Unrecognized gain (loss) on cash flow hedges	187	659	846	(701)	145
Defined benefit pension plans	(13,653)	2,082	(11,571)	(2,927)	(14,498)
Accumulated other comprehensive income (loss)	\$ (20,366)	\$ 19,097	\$ (1,269)	\$ 16,273	\$ 15,004

**NET INCOME PER SHARE**

Basic net income per share is computed by dividing net income available to common shareholders (net income less dividend requirements for preferred stock and accretion of preferred stock discount) by the weighted-average number of common shares outstanding during each year. Diluted net income per share is computed as above and assumes the conversion of outstanding stock options and restricted stock.

The following table reconciles basic and diluted net income per share for the years ended December 31.

**EARNINGS PER SHARE RECONCILIATION**

(dollars and shares in thousands,	September 30, 2011	September 30, 2010	September 30, 2009
<b>except per share data)</b>			
<b>Basic Earnings Per Share</b>			
Net income	\$ 72,460	\$ 38,214	\$ 13,737
Less: Preferred stock dividends and accretion of discount			3,892
Net income available to common stockholders	72,460	38,214	9,845
Weighted average common shares outstanding	94,467	86,785	71,314
<b>Basic Earnings Per Share</b>	\$ 0.76	\$ 0.44	\$ 0.14
<b>Diluted Earnings Per Share</b>			
Net income available to common stockholders	\$ 72,460	\$ 38,214	\$ 9,845
Weighted average common shares outstanding	94,467	86,785	71,314
Effect of dilutive securities:			
Restricted stock (1)	285	132	44
Stock options (2)	20	11	9
Weighted average shares outstanding	94,772	86,928	71,367

<b>Diluted Earnings Per Share</b>	\$	<b>0.76</b>	\$	0.44	\$	0.14
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- (1) 6, 56 and 231 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share at December 31, 2011, 2010 and 2009, respectively, because the effect would be antidilutive.
- (2) Options to purchase 4,606 shares, 5,995 shares and 6,032 shares outstanding at December 31, 2011, 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.



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### **STOCK-BASED COMPENSATION**

Compensation cost is recognized for stock options and restricted stock awards and units issued to employees based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. A third party provider is used to value certain restricted stock units where the performance measure is based on total shareholder return. Compensation expense is recognized over the requisite service period.

### **INCOME TAXES**

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company recognizes a tax position as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

### **LOSS CONTINGENCIES**

Loss contingencies, including claims and legal actions arising in the normal course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. See Note 19 to the consolidated financial statements for further disclosure.

### **STATEMENT OF CASH FLOWS DATA**

For the purpose of presentation in the accompanying consolidated statement of cash flows, cash and cash equivalents are defined as cash, due from banks, federal funds sold and resell agreements, and money market investments, which have maturities less than 90 days. Cash paid during 2011, 2010 and 2009 for interest was \$59.5 million, \$83.3 million and \$111.6 million, respectively. Cash paid for income tax, net of refunds, was a payment of \$4.6 million during 2011, a net refund of \$2.0 million during 2010 and a payment of \$2.7 million during 2009, respectively. Other noncash transactions include loans transferred to loans held for sale of \$5.4 million in 2011, \$3.2 million in 2010 and \$2.6 million in 2009, leases transferred from held for sale of \$51.4 million in 2010, leases transferred to held for sale of \$370.2 million in 2009 and transfers of securities from the available-for-sale portfolio to the held-to-maturity portfolio of \$143.8 million in 2010 and \$230.1 million in 2009. Approximately 7.6 million shares of common stock, valued at approximately \$90.1 million, was issued in the acquisition of Monroe Bancorp on January 1, 2011.

### **IMPACT OF ACCOUNTING CHANGES**

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

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**FASB ASC 805** In December 2010, the FASB issued an update (ASU No. 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations) impacting FASB ASC 805-10, Business Combinations Overall. The amendments specify that if an entity presents comparative financial statements, the entity should disclose pro forma information, including pro forma revenue and earnings, for the combined entity as though the business combination that occurred in the current year had occurred as of the beginning of the comparable prior annual reporting period. Supplemental pro forma disclosures should include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This update became effective for business combinations for which the acquisition date was on or after the beginning of the first annual reporting period beginning on or after December 15, 2010 and did not have a material impact on the consolidated financial statements or results of operations.

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

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

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

**FASB ASC 220** In June 2011, the FASB issued an update (ASU No. 2011-05, Presentation of Comprehensive Income) impacting FASB ASC 220, Comprehensive Income. The amendments in this update eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. An entity will have the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. An entity will be required to present on the face of financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income. This update and ASC No. 2011-12, which defers a portion of this guidance, became effective for the Company for interim and annual reporting periods beginning after December 15, 2011. The Company is currently evaluating the alternative options for presentation established in the new guidance.

**FASB ASC 350** In September 2011, the FASB issued an update (ASU No. 2011-08, Testing Goodwill for Impairment) impacting FASB ASC 350-20, Intangibles Goodwill and Other. The amendments in this update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If after assessing the totality of events or circumstances, it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is

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unnecessary. If an entity concludes that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, the entity is required to perform the first step of the two-step impairment. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss. This update is effective for the Company for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company does not expect this guidance to have a material impact on the consolidated financial statements.

**FASB ASC 360** In December 2011, the FASB issued an update (ASU No. 2011-10, Derecognition of in Substance Real Estate – a Scope Clarification) impacting FASB ASC 360-20, Property, Plant, and Equipment – Real Estate Sales. Under the amendments in this update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary’s nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse debt. This update becomes effective for the Company for interim and annual reporting periods beginning on or after June 15, 2012. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

**FASB ASC 210** In December 2011, the FASB issued an update (ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities) impacting FASB ASC 210-20, Balance Sheet – Offsetting. The amendments in this update require disclosure of both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The disclosure requirements are irrespective of whether they are offset in the financial statements. This update becomes effective for the Company for interim and annual reporting periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

**FASB ASC 220** In December 2011, the FASB issued an update (ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05) impacting FASB ASC 220, Comprehensive Income. This update defers the requirement to present items that are reclassified from accumulated other comprehensive income to net income in both the statement where net income is presented and the statement where other comprehensive income is presented. An entity should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. This update became effective for the Company for interim and annual reporting periods beginning after December 15, 2011. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

**RECLASSIFICATIONS**

Certain prior year amounts have been reclassified to conform to the 2011 presentation. Such reclassifications had no effect on net income or shareholders’ equity and were insignificant amounts.

**NOTE 2 ACQUISITION ACTIVITY****Integra Bank N.A.**

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. in an FDIC assisted transaction. As part of the purchase and assumption agreement, the Company and the FDIC entered into loss sharing agreements whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), other real estate owned and up to 90 days of certain accrued interest on loans. The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 80% of losses up to \$275.0 million, losses in excess of \$275.0 million up to \$467.2 million at 0% reimbursement, and 80% of losses in excess of \$467.2 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for

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which the FDIC has reimbursed the Bank under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

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

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the July 29, 2011 acquisition date. The application of the acquisition method of accounting resulted in the recognition of \$16.9 million of goodwill and \$4.3 million of core deposit intangible, after tax. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired and is influenced significantly by the FDIC-assisted transaction process. Goodwill of \$29.0 million is deductible for income tax purposes.

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

Under the acquisition method of accounting, the total estimated purchase price is allocated to Integra's net tangible and intangible assets based on their current estimated fair values on the date of acquisition. The purchase price of \$170.8 million was allocated as follows:

	September 30,
<b>(dollars in thousands)</b>	
<b>Assets Acquired</b>	
Cash and cash equivalents	\$ 314,954
Investment securities available for sale	453,700
Federal Home Loan Bank stock, at cost	15,226
Residential loans held for sale	1,690
Loans covered	727,330
Loans non-covered	56,828
Premises and equipment	19,713
Other real estate owned	34,055
Accrued interest receivable	4,751
Goodwill (1)	16,864
Other intangible assets	4,291
FDIC indemnification asset	167,949
Other assets	9,999
<b>Assets acquired</b>	<b>\$ 1,827,350</b>
<b>Liabilities Assumed</b>	
Deposits	\$ 1,443,209
Short-term borrowings	7,654
Other borrowings	192,895
FDIC settlement payable	170,759
Other liabilities	12,833
<b>Liabilities assumed</b>	<b>\$ 1,827,350</b>

- (1) Within the measurement period, goodwill was reduced by \$12.8 million due to final measurement of the liabilities associated with the acquisition.

**Table of Contents****Divestiture**

On December 2, 2011, Old National sold \$106.9 million of deposits from four of the former Integra Bank branches located in the Chicago area to First Midwest Bank. Old National recorded a net gain of \$0.5 million after recording the \$0.4 million deposit premium plus \$0.8 million related to the time deposit mark less \$0.7 million of accelerated amortization associated with the core deposit intangible. Old National retained all of the loans.

**Trust Business of Integra Bank**

On June 1, 2011, Old National Bancorp's wholly owned trust subsidiary, American National Trust and Investment Management Company d/b/a Old National Trust Company ( ONTC ), acquired the trust business of Integra Bank, N.A. in a transaction unrelated to the previously noted FDIC transaction. As of the closing, the trust business had approximately \$328 million in assets under management. This transaction brings the total assets under management by Old National's Wealth Management division to approximately \$4.4 billion. Old National paid Integra \$1.3 million in an all cash transaction and recorded acquisition-related costs of \$126 thousand. Old National recorded \$1.3 million of customer relationship intangible assets which will be amortized on an accelerated basis over 12 years and is included in the Other segment, as described in Note 23 of the consolidated financial statement footnotes.

**Monroe Bancorp**

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

Under the acquisition method of accounting, the total estimated purchase price is allocated to Monroe's net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. The purchase price for the Monroe acquisition is allocated as follows (in thousands):

	<b>September 30,</b>
Cash and cash equivalents	\$ 83,604
Trading securities	3,877
Investment securities available for sale	140,422
Investment securities held to maturity	6,972
Federal Home Loan Bank stock, at cost	2,323
Loans held for sale	6,328
Loans	447,038
Premises and equipment	19,738
Accrued interest receivable	1,804
Company-owned life insurance	17,206
Other assets	41,538
Deposits	(653,813)
Short-term borrowings	(62,529)
Other borrowings	(37,352)
Accrued expenses and other liabilities	(6,000)
Net tangible assets acquired	11,156
Definite-lived intangible assets acquired	10,485
Goodwill	68,429
Purchase price	\$ 90,070

Of the total estimated purchase price, \$11.2 million has been allocated to net tangible assets acquired and \$10.5 million has been allocated to definite-lived intangible assets acquired. The remaining purchase price has been allocated to goodwill. The goodwill will not be deductible for tax purposes and is included in the Community Banking and Other segments, as described in Note 23 of these consolidated financial statement

footnotes.

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The components of the estimated fair value of the acquired identifiable intangible assets are in the table below. These intangible assets will be amortized on an accelerated basis over their estimated lives and are included in the Community Banking and Other segments, as described in Note 23 of these consolidated financial statement footnotes.

	<b>September 30, Estimated Fair Value (in millions)</b>	<b>September 30, Estimated Useful Lives (Years)</b>
Core deposit intangible	\$ 8.2	10
Trust customer relationship intangible	\$ 2.3	12
<u>Subsequent Event</u>		

On January 25, 2012, Old National announced its agreement to acquire Indiana Community Bancorp in an all stock transaction. Indiana community Bancorp is an Indiana bank holding company with Indiana Bank and Trust Company ( IBTC ) as its wholly owned subsidiary. Headquartered in Columbus, Indiana, IBTC has 17 full-service banking centers serving the South Central Indiana area and approximately \$985 million in assets. The acquisition increases Old National's position as the third largest branch network in Indiana. Pursuant to the merger agreement, the shareholders of Indiana Community Bancorp will receive 1.90 shares of Old National Bancorp common stock for each share of Indiana Community Bancorp common stock, subject to certain adjustments. The transaction is valued at approximately \$79.2 million and is expected to close in the second quarter of 2012 subject to approval by federal and state regulatory authorities.



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

(dollars in thousands)	September 30, Amortized Cost	September 30, Unrealized Gains	September 30, Unrealized Losses	September 30, Fair Value
<b>2011</b>				
<b>Available-for-Sale</b>				
U.S. Treasury	\$ 65,221	\$ 548	\$	\$ 65,769
U.S. Government-sponsored entities and agencies	171,629	1,621	(65)	173,185
Mortgage-backed securities Agency	1,153,629	28,687	(61)	1,182,255
Mortgage-backed securities Non-agency	90,355	418	(4,873)	85,900
States and political subdivisions	376,609	26,428	(193)	402,844
Pooled trust preferred securities	25,461		(18,134)	7,327
Other securities	147,897	8,365	(2,266)	153,996
Total available-for-sale securities	\$ 2,030,801	\$ 66,067	\$ (25,592)	\$ 2,071,276
<b>Held-to-Maturity</b>				
U.S. Government-sponsored entities and agencies	\$ 177,159	\$ 11,434	\$	\$ 188,593
Mortgage-backed securities Agency	84,075	3,305		87,380
States and political subdivisions	216,345	8,548	(176)	224,717
Other securities	7,011		(2)	7,009
Total held-to-maturity securities	\$ 484,590	\$ 23,287	\$ (178)	\$ 507,699
<b>2010</b>				
<b>Available-for-Sale</b>				
U.S. Treasury	\$ 62,206	\$ 371	\$ (27)	\$ 62,550
U.S. Government-sponsored entities and agencies	315,922	1,612	(2,401)	315,133
Mortgage-backed securities Agency	922,005	22,926	(485)	944,446
Mortgage-backed securities Non-agency	134,168	1,018	(8,380)	126,806
States and political subdivisions	343,970	7,503	(2,549)	348,924
Pooled trust preferred securities	27,368		(18,968)	8,400
Other securities	148,203	7,816	(2,056)	153,963
Total available-for-sale securities	\$ 1,953,842	\$ 41,246	\$ (34,866)	\$ 1,960,222
<b>Held-to-Maturity</b>				
U.S. Government-sponsored entities and agencies	\$ 303,265	\$ 2,247	\$ (3,703)	\$ 301,809
Mortgage-backed securities Agency	117,013	2,577	(510)	119,080
States and political subdivisions	217,381	1	(13,003)	204,379
Other securities	551		(176)	375
Total held-to-maturity securities	\$ 638,210	\$ 4,825	\$ (17,392)	\$ 625,643

Proceeds from sales of investment securities available-for-sale were \$546.0 million in 2011, \$481.5 million in 2010 and \$1.042 billion in 2009. In 2011, realized gains were \$9.6 million and losses were \$1.1 million. Included in the realized gains is \$0.9 million of gains that resulted from approximately \$362.4 million of investment securities which were called by the issuers. Also impacting earnings in 2011 are \$21 thousand of

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gains associated with the trading securities, \$158 thousand of gains from mutual funds and \$1.4 million of other-than-temporary impairment charges related to credit losses on three non-agency mortgage-backed securities and one trust preferred security, described below. In 2010, realized gains were \$21.7 million and losses were \$4.6 million. Included in the realized gains is \$0.8 million of gains that resulted from approximately \$836.1 million of investment securities which were called by the issuers. Also impacting earnings in 2010 are \$3.9 million of other-than-temporary impairment charges related to credit losses on three pooled trust preferred securities and ten non-agency mortgage-backed securities.

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described below. In 2009, realized gains were \$28.2 million and losses were \$0.9 million. Included in the realized gains is \$1.1 million of gains that resulted from approximately \$353.8 million of investment securities which were called by the issuers. Also impacting earnings in 2009 are \$24.8 million of other-than-temporary-impairment charges related to credit loss on six pooled trust preferred securities and ten non-agency mortgage-backed securities. At December 31, investment securities were pledged to secure public and other funds with a carrying value of \$835 million in 2011 and \$1.481 billion in 2010.

Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled \$2.8 million at December 31, 2011.

At December 31, 2011, Old National had a concentration of investment securities issued by certain states and their political subdivisions with the following aggregate market values: \$268.4 million in Indiana, which represented 26.0% of shareholders' equity. At December 31, 2010, Old National had a concentration of investment securities issued in certain states and their political subdivisions with the following aggregate market values: \$212.2 million in Indiana, which represented 24.1% of shareholders' equity.

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

(dollars in thousands) Maturity	September 30, 2011			September 30, 2010		
	Amortized Cost	Fair Value	September 30, Weighted Average Yield	Amortized Cost	Fair Value	September 30, Weighted Average Yield
<b>Available-for-sale</b>						
Within one year	\$ 79,212	\$ 79,668	1.61 %	\$ 70,326	\$ 70,865	3.24 %
One to five years	123,174	127,761	3.38	828,636	850,288	3.51
Five to ten years	240,215	252,434	3.86	441,900	444,474	3.97
Beyond ten years	1,588,200	1,611,413	3.32	612,980	594,595	4.97
Total	\$ 2,030,801	\$ 2,071,276	3.32 %	\$ 1,953,842	\$ 1,960,222	4.06 %
<b>Held-to-maturity</b>						
Within one year	\$ 4,075	\$ 4,073	1.48 %	\$ 71	\$ 56	2.67 %
One to five years	4,819	4,861	2.60	117,833	119,724	3.65
Five to ten years	151,395	158,366	2.97	12,248	11,785	3.91
Beyond ten years	324,301	340,399	4.47	508,058	494,078	3.88
Total	\$ 484,590	\$ 507,699	3.96 %	\$ 638,210	\$ 625,643	3.84 %

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

(dollars in thousands)	September 30, Less than 12 months	September 30, 12 months or longer	September 30, Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>2011</b>				
<b>Available-for-Sale</b>				
U.S.				
Government-sponsored entities and agencies	\$ 24,935	\$ (65)	\$	\$ 24,935
Mortgage-backed securities Agency	49,016	(61)	3	49,019
Mortgage-backed securities Non-agency	10,053	(353)	59,203	(4,520)
States and political subdivisions	9,281	(114)	1,345	(79)
Pooled trust preferred securities			7,327	(18,134)
Other securities	4,516	(141)	6,218	(2,125)
Total available-for-sale	\$ 97,801	\$ (734)	\$ 74,096	\$ (24,858)
			\$ 171,897	\$ (25,592)
<b>Held-to-Maturity</b>				
States and political subdivisions				
Other securities	\$ 1,613	\$ (1)	\$ 13,180	\$ (175)
	22	(2)		22
Total held-to-maturity	\$ 1,635	\$ (3)	\$ 13,180	\$ (175)
			\$ 14,815	\$ (178)
<b>2010</b>				
<b>Available-for-Sale</b>				
U.S. Treasury	\$ 10,944	\$ (27)	\$	\$ 10,944
U.S.				
Government-sponsored entities and agencies	120,404	(2,401)		120,404
Mortgage-backed securities Agency	160,784	(485)	483	161,267
Mortgage-backed securities Non-agency	13,265	(1,696)	79,327	(6,684)
States and political subdivisions	94,448	(2,549)		94,448
Pooled trust preferred securities			8,400	(18,968)
Other securities	12,283	(206)	6,204	(1,850)
Total available-for-sale	\$ 412,128	\$ (7,364)	\$ 94,414	\$ (27,502)
			\$ 506,542	\$ (34,866)
<b>Held-to-Maturity</b>				
U.S.				
Government-sponsored	\$ 111,975	\$ (3,703)	\$	\$ 111,975
				\$ (3,703)

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

During the second quarter of 2010, approximately \$143.8 million of state and political subdivision securities were transferred from the available-for-sale portfolio to the held-to-maturity portfolio at fair value. The \$9.4 million unrealized holding gain at the date of transfer shall continue to be reported as a separate component of shareholders' equity and will be amortized over the remaining life of the securities as an adjustment of yield.

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

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

When other-than-temporary-impairment occurs under either model, the amount of the other-than-temporary-impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary-impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. 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 December 31, 2011, Old National's security portfolio consisted of 1,047 securities, 61 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's non-agency mortgage-backed and pooled trust preferred securities, as discussed below:

**Non-agency Mortgage-backed Securities**

At December 31, 2011, the Company's securities portfolio contained 13 non-agency collateralized mortgage obligations with a fair value of \$85.9 million which had net unrealized losses of approximately \$4.5 million. All of these securities are residential mortgage-backed securities. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of FASB ASC 325-10 (EITF 99-20). In the first quarter of 2011, one non-agency mortgage-backed security was sold. As of December 31, 2011, nine of these securities were rated below investment grade with grades ranging from B to D. One of the nine securities is rated B and has a fair value of \$13.8 million, two of the securities are rated CCC with a fair value of \$24.2 million, four of the securities are rated CC with a fair value of \$14.0 million, one of the securities is rated C with a fair value of \$17.6 million and one of the securities is rated D with a fair value of \$3.6 million. These securities were evaluated to determine if the underlying collateral is expected to experience loss, resulting in a principal loss of the notes. As part of the evaluation, a detailed analysis of deal-specific data was obtained from remittance reports provided by the trustee and data from the servicer. The collateral was broken down into several distinct buckets based on loan performance characteristics in order to apply different assumptions to each bucket. The most significant drivers affecting loan performance were examined including original loan-to-value (LTV), underlying property location and the loan status. The loans in the current status bucket were further divided based on their original LTV: a high-LTV and a low-LTV group to which different default curves and severity percentages were applied. The high-LTV group was further bifurcated into loans originated in high-risk states and all other states with a higher default-curve and severity percentages being applied to loans originated in the high-risk states. Different default curves and severity rates were applied to the remaining non-current collateral buckets. Using these collateral-specific assumptions, a model was built to project the future performance of the instrument. Based on this analysis of the underlying collateral, Old National recorded \$0.5 million of credit losses on three of these securities for the twelve months ended December 31, 2011. The fair value of these non-agency mortgage-backed securities remaining at December 31, 2011 was \$73.2 million.

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At December 31, 2010, the Company's securities portfolio contained 15 non-agency collateralized mortgage obligations with a fair value of \$126.8 million which had net unrealized losses of approximately \$7.4 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). In the fourth quarter of 2010, two non-agency mortgage-backed securities were sold. As of December 31, 2010, eight of these securities were rated below investment grade with grades ranging from B- to C. One of the eight securities was rated B- and had a fair value of \$8.3 million, four of the securities were rated CCC with a fair value of \$28.1 million, two of the securities were rated CC with a fair value of \$25.1 million and one of the securities was rated C with a fair value of \$8.8 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 with a higher default-curve and severity percentages being applied to loans originated in the high-risk states. Different default curves and severity rates were applied to the remaining non-current collateral buckets. Using these collateral-specific assumptions, a model was built to project the future performance of the instrument. Based on this analysis of the underlying collateral, Old National recorded \$3.0 million of credit losses on ten of these securities for the twelve months ended December 31, 2010. The fair value of these non-agency mortgage-backed securities remaining at December 31, 2010 was \$70.3 million.

**Pooled Trust Preferred Securities**

At December 31, 2011, the Company's securities portfolio contained eight pooled trust preferred securities with a fair value of \$7.3 million and unrealized losses of \$18.1 million. Six of the pooled trust preferred securities in our portfolio fall within the scope of FASB ASC 325-10 (EITF 99-20) and have a fair value of \$4.2 million with unrealized losses of \$7.0 million at December 31, 2011. These securities were rated A2 and A3 at inception, but at December 31, 2011, four securities were rated C and two securities D. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation ( CDO ) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National's note class. For the twelve months ended December 31, 2011, our model indicated other-than-temporary-impairment losses on one security of \$0.9 million, all of which was recorded as a credit loss in earnings. At December 31, 2011, the fair value of this security was \$9 thousand.

Two of our pooled trust preferred securities with a fair value of \$3.1 million and unrealized losses of \$11.1 million at December 31, 2011 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

At December 31, 2010, the Company's securities portfolio contained nine pooled trust preferred securities with a fair value of \$8.4 million and unrealized losses of \$19.0 million. Seven of the pooled trust preferred securities in our portfolio fell within the scope of FASB ASC 325-10 (EITF 99-20) and had a fair value of \$4.4 million with unrealized losses of \$8.8 million at December 31, 2010. These securities were rated A2 and A3 at inception, but at December 31, 2010, one security was rated BB, five securities were rated C and one security D. The issuers in these

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securities were primarily banks, but some of the pools did include a limited number of insurance companies. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation ( CDO ) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National's note class. For the twelve months ended December 31, 2010, our model indicated other-than-temporary-impairment losses on three securities of \$0.9 million, all of which was recorded as a credit loss in earnings. At December 31, 2010, the fair value of these three securities was \$1.8 million and they remained classified as available for sale.

Two of our pooled trust preferred securities with a fair value of \$4.0 million and unrealized losses of \$10.2 million at December 31, 2010, are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

The table below summarizes the relevant characteristics of our eight pooled trust preferred securities as well as four single issuer trust preferred securities which are included with other securities in Note 3 to the consolidated financial statements. Each of the pooled trust preferred securities support a more senior tranche of security holders except for the MM Community Funding II security which, due to payoffs, Old National is now in the most senior class.

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

Trust preferred securities

December 31, 2011

(Dollars in Thousands)

	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2011	Currently Performing/ Remaining	Percent of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination as a % of Current Performing Collateral
<b>Pooled trust preferred securities:</b>										
TROPC 2003-1A	A4L	C	\$ 86	\$ 9	\$ (77)	\$ 888	17/38	41.7%	22.6%	0.0%
MM Community Funding IX	B-2	D	2,067	841	(1,226)		16/31	41.1%	8.8%	0.0%
Reg Div Funding 2004	B-2	D	4,177	695	(3,482)		24/45	46.0%	7.2%	0.0%
Pretsl XII	B-1	C	2,886	1,571	(1,315)		49/76	30.1%	7.9%	0.0%
Pretsl XV	B-1	C	1,695	1,049	(646)		50/72	31.3%	9.0%	0.0%
Reg Div Funding 2005	B-1	C	311	69	(242)		23/49	49.3%	18.4%	0.0%
Pretsl XXVII LTD	B	C	4,849	1,130	(3,719)		33/49	28.1%	24.4%	28.6%
Trapeza Ser 13A	A2A	CCC-	9,390	1,963	(7,427)		35/55	29.2%	21.3%	40.9%
			25,461	7,327	(18,134)	888				

**Single Issuer trust preferred securities:**

First Empire Cap (M&T)	BBB		956	994	38					
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First Empire Cap (M&T)	BBB	2,905	2,982	77
Fleet Cap Tr V (BOA)	BB+	3,359	2,539	(820)
JP Morgan Chase Cap XIII	BBB	4,713	3,426	(1,287)
		11,933	9,941	(1,992)
<b>Total</b>		<b>\$ 37,394</b>	<b>\$ 17,268</b>	<b>\$ (20,126) \$ 888</b>

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

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The following table details all securities with other-than-temporary-impairment, their credit rating at December 31, 2011 and the related credit losses recognized in earnings:

	000000	000000	000000	000000	000000	000000	000000
	Vintage	Lowest Credit Rating (1)	Amortized Cost	Amount of other-than-temporary impairment recognized in earnings Twelve Months ended December 31,			Life-to date
				2011	2010	2009	
Non-agency mortgage-backed securities:							
BAFC Ser 4	2007	CCC	\$ 14,026	\$	\$ 79	\$ 63	\$ 142
CWALT Ser 73CB	2005	CC	3,370		207	83	290
CWALT Ser 73CB	2005	CC	4,477		427	182	609
CWHL 2006-10 (3)	2006				309	762	1,071
CWHL 2005-20	2005	CC	4,191		39	72	111
FHASI Ser 4	2007	C	18,933	340	629	223	1,192
HALO Ser 1R	2006	B	15,640	16			16
RFMSI Ser S9 (2)	2006				923	1,880	2,803
RFMSI Ser S10	2006	D	3,971	165	76	249	490
RALI QS2 (2)	2006				278	739	1,017
RFMSI S1	2006	CC	2,299		30	176	206
			66,907	521	2,997	4,429	7,947
Pooled trust preferred securities:							
TROPC	2003	C	87	888	444	3,517	4,849
MM Community Funding IX	2003	D	2,067		165	2,612	2,777
Reg Div Funding	2004	D	4,177		321	5,199	5,520
Pretsl XII	2003	C	2,886			1,897	1,897
Pretsl XV	2004	C	1,695			3,374	3,374
Reg Div Funding	2005	C	311			3,767	3,767
			11,223	888	930	20,366	22,184
Total other-than-temporary-impairment recognized in earnings				\$ 1,409	\$ 3,927	\$ 24,795	\$ 30,131

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

(2) Sold during fourth quarter 2010.

(3) Sold during first quarter 2011.

**NOTE 4 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 December 31, 2011 and 2010, Old National had residential loans held for sale of \$4.5 million and \$3.8 million, respectively.

During 2011, commercial and commercial real estate loans held for investment of \$5.4 million, including \$0.1 million of purchased impaired loans, were reclassified to loans held for sale at the lower of cost or fair value and sold for \$5.6 million, resulting in income of \$0.2 million. At

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December 31, 2011, there were no loans held for sale under this arrangement.

During 2010, commercial and commercial real estate loans held for investment of \$3.2 million were reclassified to loans held for sale at the lower of cost or fair value and sold for \$3.6 million, resulting in a recovery of \$0.4 million on the loans transferred. At December 31, 2010, there were no loans held for sale under this arrangement.

**Table of Contents****NOTE 5 FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES**

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

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

(dollars in thousands)	September 30, 2011	September 30, 2010
Commercial (1)	\$ 1,216,654	\$ 1,211,399
Commercial real estate:		
Construction	46,141	101,016
Other	1,021,229	841,379
Residential real estate	995,458	664,705
Consumer credit:		
Heloc	235,603	248,293
Auto	483,575	497,102
Other	142,183	179,557
Covered loans	626,360	
<b>Total loans</b>	<b>4,767,203</b>	<b>3,743,451</b>
Allowance for loan losses	(57,117)	(72,309)
Allowance for loan losses - covered loans	(943)	
<b>Net loans</b>	<b>\$ 4,709,143</b>	<b>\$ 3,671,142</b>

(1) Includes direct finance leases of \$79.6 million and \$106.1 million at December 31, 2011 and 2010, respectively. The risk characteristics of each loan portfolio segment are as follows:

**Commercial**

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

**Commercial real estate**

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

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Included with commercial real estate, construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of

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substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from Old National until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

### Residential

With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, Old National generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Portfolio loans, or loans Old National intends to hold for investment purposes, are carried at the principal balance outstanding, net of earned interest, purchase premiums or discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the principal balances of loans outstanding.

### Consumer

Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Portfolio loans, or loans Old National intends to hold for investment purposes, are carried at the principal balance outstanding, net of earned interest, purchase premiums or discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the principal balances of loans outstanding.

### Covered Loans

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. ( Integra ) in an FDIC assisted transaction. As part of the purchase and assumption agreement, the Company and the FDIC entered into loss sharing agreements (each, a loss sharing agreement and collectively, the loss sharing agreements ), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), other real estate owned ( OREO ) and up to 90 days of certain accrued interest on loans. The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 80% of losses up to \$275.0 million, losses in excess of \$275.0 million up to \$467.2 million at 0% reimbursement, and 80% of losses in excess of \$467.2 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC has reimbursed the Bank under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

### Related Party Loans

In the ordinary course of business, Old National grants loans to certain executive officers, directors, and significant subsidiaries (collectively referred to as related parties ).

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Activity in related party loans during 2011 is presented in the following table:

(dollars in thousands)	September 30, 2011
Balance, January 1	\$ 14,251
New loans	5,026
Repayments	(4,709)
 Balance, December 31	 \$ 14,568

**Allowance for loan losses**

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses incurred in the loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, historical loss experience, and assessments of the impact of current economic conditions on the portfolio.

The allowance is increased through a provision charged to operating expense. Loans deemed to be uncollectible are charged to the allowance. Recoveries of loans previously charged-off are added to the allowance.

No allowance is brought forward on any of the acquired loans as any credit deterioration evident in the loans was included in the determination of the fair value of the loans at the acquisition date. Purchased credit impaired (PCI) loans would not be considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. Impairment on PCI loans would be recognized in the current period as provision expense.

Old National's activity in the allowance for loan losses for the years ended December 31, 2011 and 2010, is as follows:

(dollars in thousands)	September 30, Commercial	September 30, Commercial Real Estate	September 30, Consumer	September 30, Residential	September 30, Unallocated	September 30, Total
<b>2011</b>						
<b>Allowance for loan losses:</b>						
Beginning balance	\$ 26,204	\$ 32,654	\$ 11,142	\$ 2,309		\$ 72,309
Charge-offs	(10,300)	(12,319)	(10,335)	(1,945)		(34,899)
Recoveries	4,330	2,302	6,226	319		13,177
Provision	(270)	4,356	(79)	3,466		7,473
Ending balance	\$ 19,964	\$ 26,993	\$ 6,954	\$ 4,149		\$ 58,060

(dollars in thousands)	September 30, Commercial	September 30, Commercial Real Estate	September 30, Consumer	September 30, Residential	September 30, Unallocated	September 30, Total
<b>2010</b>						
<b>Allowance for loan losses:</b>						
Beginning balance	\$ 26,869	\$ 27,138	\$ 13,853	\$ 1,688		\$ 69,548
Charge-offs	(11,967)	(10,196)	(16,848)	(2,296)		(41,307)
Recoveries	5,060	2,041	6,014	172		13,287
Provision	6,242	13,671	8,123	2,745		30,781

Ending balance	\$	26,204	\$	32,654	\$	11,142	\$	2,309	\$	72,309
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The following table provides Old National's recorded investment in financing receivables by portfolio segment at December 31, 2011, and 2010 and other information regarding the allowance:

(dollars in thousands)	September 30, Commercial	September 30, Commercial Real Estate	September 30, Consumer	September 30, Residential	September 30, Unallocated	September 30, Total
<b>2011</b>						
<b>Allowance for credit losses:</b>						
Ending balance: individually evaluated for impairment	\$ 7,015	\$ 4,177				\$ 11,192
Ending balance: collectively evaluated for impairment	\$ 12,816	\$ 21,397	\$ 6,335	\$ 2,752		\$ 43,300
Ending balance: loans acquired with deteriorated credit quality	\$ 128	\$ 1,288	\$ 445	\$ 764		\$ 2,625
Ending balance: covered loans acquired with deteriorated credit quality	\$ 5	\$ 131	\$ 174	\$ 633		\$ 943
Total allowance for credit losses	\$ 19,964	\$ 26,993	\$ 6,954	\$ 4,149		\$ 58,060
<b>Loans and leases outstanding:</b>						
Ending balance: individually evaluated for impairment	\$ 31,838	\$ 43,225				\$ 75,063
Ending balance: collectively evaluated for impairment	\$ 1,183,675	\$ 1,002,105	\$ 861,361	\$ 995,458		\$ 4,042,599
Ending balance: loans acquired with deteriorated credit quality	\$ 1,141	\$ 22,040				\$ 23,181
Ending balance: covered loans acquired with deteriorated credit quality	\$ 124,755	\$ 325,934	\$ 128,700	\$ 46,971		\$ 626,360
Total loans and leases outstanding	\$ 1,341,409	\$ 1,393,304	\$ 990,061	\$ 1,042,429		\$ 4,767,203

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
<b>2010</b>						
<b>Allowance for credit losses:</b>						
Ending balance: individually evaluated for impairment	\$ 6,063	\$ 8,514				\$ 14,577
Ending balance: collectively evaluated for impairment	\$ 20,141	\$ 24,140	\$ 11,142	\$ 2,309		\$ 57,732
<b>Total allowance for credit losses</b>	<b>\$ 26,204</b>	<b>\$ 32,654</b>	<b>\$ 11,142</b>	<b>\$ 2,309</b>		<b>\$ 72,309</b>
<b>Loans and leases outstanding:</b>						
Ending balance: individually evaluated for impairment	\$ 23,944	\$ 29,377				\$ 53,321
Ending balance: collectively evaluated for impairment	\$ 1,187,455	\$ 913,018	\$ 924,952	\$ 664,705		\$ 3,690,130
<b>Total loans and leases outstanding</b>	<b>\$ 1,211,399</b>	<b>\$ 942,395</b>	<b>\$ 924,952</b>	<b>\$ 664,705</b>		<b>\$ 3,743,451</b>

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





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Large commercial credits are subject to individual evaluation for impairment. Retail credits and other small balance credits that are part of a homogeneous group are not tested for individual impairment. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Old National's policy, for all but purchased credit impaired loans, is to recognize interest income on impaired loans unless the loan is placed on nonaccrual status. For the years ended December 31, 2011 and 2010, the average balance of impaired loans was \$64.2 million and \$51.2 million, respectively, for which no interest income was recorded. No additional funds are committed to be advanced in connection with impaired loans.

The following table shows Old National's impaired loans, excluding covered loans, that are individually evaluated as of December 31, 2011 and 2010, respectively. Of the loans purchased during 2011 without FDIC loss share coverage, only those that have experienced subsequent impairment since the date acquired are included in the table below. Purchased loans of \$24.0 million migrated to classified-doubtful during the year ended December 31, 2011.

(dollars in thousands)	September 30, Recorded Investment	September 30, Unpaid Principal Balance	September 30, Related Allowance
<b>December 31, 2011</b>			
With no related allowance recorded:			
Commercial	\$ 10,094	\$ 13,047	\$
Commercial Real Estate Construction	610	610	
Commercial Real Estate Other	18,136	27,372	
With an allowance recorded:			
Commercial	21,744	24,928	7,143
Commercial Real Estate Construction	2,256	3,327	12
Commercial Real Estate Other	22,223	24,792	5,453
<b>Total Commercial</b>	<b>\$ 75,063</b>	<b>\$ 94,076</b>	<b>\$ 12,608</b>
<b>December 31, 2010</b>			
With no related allowance recorded:			
Commercial	\$ 6,116	\$ 8,001	\$
Commercial Real Estate Construction			
Commercial Real Estate Other	10,554	16,781	
With an allowance recorded:			
Commercial	17,828	20,341	6,063
Commercial Real Estate Construction			
Commercial Real Estate Other	18,823	19,849	8,514
<b>Total Commercial</b>	<b>\$ 53,321</b>	<b>\$ 64,972</b>	<b>\$ 14,577</b>

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The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans for the twelve months ended December 31, 2011 and 2010 are included in the tables below.

(dollars in thousands)	September 30, Average Recorded Investment	September 30, Interest Income Recognized (1)
December 31, 2011		
With no related allowance recorded:		
Commercial	\$ 8,105	\$ 357
Commercial Real Estate Construction	305	
Commercial Real Estate Other	14,346	463
With an allowance recorded:		
Commercial	19,786	679
Commercial Real Estate Construction	1,128	89
Commercial Real Estate Other	20,524	626
Total Commercial	\$ 64,194	\$ 2,214

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

December 31, 2010		
With no related allowance recorded:		
Commercial	\$ 4,972	\$ 61
Commercial Real Estate Construction		
Commercial Real Estate Other	9,693	250
With an allowance recorded:		
Commercial	19,129	545
Commercial Real Estate Construction	135	
Commercial Real Estate Other	17,288	423
Total Commercial	\$ 51,217	\$ 1,279

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

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

Covered loans accounted for under FASB ASC Topic 310-30 accrue interest, even though they may be contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period covered loan loss provision or prospective yield adjustments. Similar to uncovered loans, covered loans accounted for outside FASB ASC Topic 310-30 are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful. Information for covered loans accounted for both under and outside FASB ASC Topic 310-30 is included in the table below in the row labeled covered loans.



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Old National's past due financing receivables as of December 31 are as follows:

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Recorded Investment > 90 Days and Accruing	Nonaccrual	Total Past Due	Current
December 31, 2011						
Commercial	\$ 2,755	\$ 357	\$ 358	\$ 34,104	\$ 37,574	\$ 1,179,080
Commercial Real Estate:						
Construction		164		5,425	5,589	40,552
Other	7,466	413	279	60,762	68,920	952,309
Consumer:						
Heloc	706	186	151	1,269	2,312	233,291
Auto	5,745	1,276	246	1,943	9,210	474,365
Other	2,002	463	76	1,578	4,119	138,064
Residential	7,950	1,839		10,247	20,036	975,422
Covered loans	5,446	2,033	2,338	182,880	192,697	433,663
Total	\$ 32,070	\$ 6,731	\$ 3,448	\$ 298,208	\$ 340,457	\$ 4,426,746
December 31, 2010						
Commercial	\$ 2,543	\$ 583	\$ 79	\$ 25,488	\$ 28,693	\$ 1,182,706
Commercial Real Estate:						
Construction						101,016
Other	992	98		30,416	31,506	809,873
Consumer:						
Heloc	849	477	189	1,903	3,418	244,875
Auto	5,791	1,316	120	2,331	9,558	487,544
Other	1,129	972	184	2,088	4,373	175,184
Residential	9,126	1,589		8,719	19,434	645,271
Total	\$ 20,430	\$ 5,035	\$ 572	\$ 70,945	\$ 96,982	\$ 3,646,469

**Loan Participations**

Old National has loan participations, which qualify as participating interests, with other financial institutions. At December 31, 2011, these loans totaled \$214.6 million, of which \$120.4 million had been sold to other financial institutions and \$94.2 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.

**Troubled Debt Restructurings**

Old National may choose to restructure the contractual terms of certain loans. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit Old National by increasing the ultimate probability of collection.

Any loans that are modified are reviewed by Old National to identify if a troubled debt restructuring (TDR) has occurred, which is when for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status. During the twelve months ended December 31, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans



included one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate of new debt with similar risk, or a permanent reduction of the recorded investment of the loan.

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Loans modified in a troubled debt restructuring are typically 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 for six months.

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

For commercial and industrial troubled debt restructurings, an allocated reserve is established within the allowance for loan losses for the difference between the carrying value of the loan and its computed fair value. To determine the fair value of the loan, one of the following methods is selected: (1) the present value of expected cash flows discounted at the loans original effective interest rate, (2) the loan's observable market price, or (3) the fair value of the collateral value, if the loan is collateral dependent. The allocated reserve is established as the difference between the carrying value of the loan and the collectable value. If there are significant changes in the amount or timing of the loan's expected future cash flows, impairment is recalculated and the valuation allowance is adjusted accordingly.

For consumer and residential troubled debt restructurings, an additional amount is added to the loan loss reserve that represents the difference in the present value of the cash flows between the original terms and the new terms of the modified loan, using the original effective interest rate of the loan as a discount rate.

At December 31, 2011, our troubled debt restructurings consisted of \$7.1 million of commercial loans, \$5.8 million of commercial real estate loans and \$0.1 million of consumer loans. Approximately \$11.7 million of the troubled debt restructuring at December 31, 2011 were included with nonaccrual loans. All of our troubled debt restructurings were included with nonaccrual loans at December 31, 2010 and consisted of \$3.8 million of commercial loans and \$1.0 million of commercial real estate loans.

As of December 31, 2011 and 2010, Old National has allocated \$1.5 million and \$1.6 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings, respectively. Old National has not committed to lend any additional amounts as of December 31, 2011 and 2010, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents loans by class modified as troubled debt restructurings that occurred during the twelve months ended December 31, 2011:

(dollars in thousands)	September 30, Number of Loans	September 30, Pre-modification Outstanding Recorded Investment	September 30, Post-modification Outstanding Recorded Investment
<b>Troubled Debt Restructuring:</b>			
Commercial	25	\$ 7,086	\$ 7,086
Commercial Real Estate construction	1	1,422	1,422
Commercial Real Estate other	46	5,956	4,429
Consumer other	1	53	53
<b>Total</b>	<b>73</b>	<b>\$ 14,517</b>	<b>\$ 12,990</b>

The troubled debt restructurings described above increased the allowance for loan losses by \$1.4 million and resulted in charge-offs of \$5.6 million during the twelve months ended December 31, 2011.

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The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the twelve months ended December 31, 2011:

(dollars in thousands)	September 30, Number of Contracts	September 30, Recorded Investment
Troubled Debt Restructuring That Subsequently Defaulted:		
Commercial	3	\$ 1,647
Commercial Real Estate	6	1,587
<b>Total</b>	<b>9</b>	<b>\$ 3,234</b>

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The troubled debt restructurings that subsequently defaulted described above decreased the allowance for loan losses by \$0.6 million and resulted in charge-offs of \$3.0 million during the twelve months ended December 31, 2011.

The terms of certain other loans were modified during the twelve months ended December 31, 2011 that did not meet the definition of a troubled debt restructuring. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under the Company's internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or if the delay in a payment was 90 days or less.

Purchased credit impaired ( PCI ) loans would not be considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the purchased credit impaired loan is being accounted for as part of a pool, it will not be removed from the pool.

In general, once a modified loan is considered a TDR, the loan will always be considered a TDR, and therefore impaired, until it is paid in full, otherwise settled, sold or charged off. However, our policy also permits for loans to be removed from troubled debt restructuring status in the years following the restructuring if the following two conditions are met: (1) The restructuring agreement specifies an interest rate equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk, and (2) the loan is not impaired based on the terms specified by the restructuring agreement.

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

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

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Old National has purchased loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. Of these acquired credit impaired loans, \$4.0 million in carrying balances did not meet the criteria to be accounted for under the guidance of ASC 310-30 as they were revolving lines of credit, thus these lines have not been included in the following table. For these noncovered loans that meet the criteria of ASC 310-30 treatment, the carrying amount is as follows:

(dollars in thousands)	September 30, December 31, 2011
Commercial	\$ 1,143
Commercial real estate	23,059
Consumer	41,064
Residential	418
<b>Outstanding balance</b>	<b>\$ 65,684</b>
Carrying amount, net of allowance of \$1,702	\$ 63,982

The accretable difference on purchased loans acquired in a business combination is the difference between the expected cash flows and the net present value of expected cash flows with such difference accreted into earnings using the effective yield method over the term of the loans. The accretable difference that is expected to be accreted into future earnings of the Company totaled \$13.4 million at the date of acquisition. Accretion of \$15.3 million has been recorded as loan interest income through December 31, 2011.

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

(dollars in thousands)	September 30, Monroe	September 30, Integra Noncovered	September 30, Total
Balance at January 1, 2011	\$	\$	\$
New loans purchased	7,001	6,364	13,365
Accretion of income	(14,149)	(1,164)	(15,313)
Reclassifications from (to) nonaccretable difference	22,925	671	23,596
Disposals/other adjustments	(269)		(269)
<b>Balance at December 31, 2011</b>	<b>\$ 15,508</b>	<b>\$ 5,871</b>	<b>\$ 21,379</b>

Included in Old National's allowance for loan losses is \$1.7 million related to the purchased loans disclosed above for 2011. An immaterial amount of allowances for loan losses were reversed during 2011 related to these loans.

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

(Dollars in thousands)	September 30, Monroe Bancorp January 1, 2011	September 30, Integra Bank July 29, 2011
Contractually required payments	\$ 94,714	\$ 921,856
Nonaccretable difference	(45,157)	(226,426)
<b>Cash flows expected to be collected at acquisition</b>	<b>49,557</b>	<b>695,430</b>

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Accretable yield		(6,971)		(98,487)	
Fair value of acquired loans at acquisition		\$	42,586	\$	596,943

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

**Table of Contents****NOTE 6 COVERED LOANS**

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements. Covered loans were \$626.4 million at December 31, 2011. The composition of covered loans by lending classification was as follows:

	September 30, September 30, At December 31, 2011	September 30, September 30, At December 31, 2011	September 30, September 30, At December 31, 2011
	Loans Accounted for		
	Under ASC 310-30 (Purchased Credit Impaired)	Loans excluded from ASC 310-30 (1) (Not Purchased Credit Impaired)	Total Covered Purchased Loans
(dollars in thousands)			
Commercial	\$ 65,688	\$ 59,067	\$ 124,755
Commercial real estate	304,220	21,714	325,934
Residential	46,868	103	46,971
Consumer	40,012	88,688	128,700
Covered loans	456,788	169,572	626,360
Allowance for loan losses	(943)		(943)
Covered loans, net	\$ 455,845	\$ 169,572	\$ 625,417

(1) Includes loans with revolving privileges which are scoped out of FASB ASC Topic 310-30 and certain loans which Old National elected to treat under the cost recovery method of accounting.

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

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

Accretable yield, or income expected to be collected on the covered loans accounted for under ASC 310-30, is as follows:

	September 30,
(dollars in thousands)	
Balance at January 1, 2011	\$
New loans purchased	92,123
Accretion of income	(19,428)
Reclassifications from (to) nonaccretable difference	19,051
Disposals/other adjustments	307
Balance at December 31, 2011	\$ 92,053



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A summary of activity for the indemnification asset and loss share receivable is presented below:

	September 30,
<b>(dollars in thousands)</b>	
<b>Indemnification Asset</b>	
Balance at January 1, 2011	\$
Adjustments not reflected in income	
Established through acquisitions	167,949
Reclass to loss claims receivable	(20,808)
Other	(1)
Adjustments reflected in income	
(Amortization) accretion	1,459
Other	(1,033)
Balance at December 31, 2011	\$ 147,566

	September 30,
<b>(dollars in thousands)</b>	
<b>Loss Share Receivable</b>	
Balance at January 1, 2011	\$
Established through acquisitions	
Reclass from indemnification asset	20,808
Cash received from FDIC	(660)
Balance at December 31, 2011	\$ 20,148

**NOTE 7 OTHER REAL ESTATE OWNED**

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

	September 30, Other Real Estate Owned	September 30, Other Real Estate Owned, Covered
<b>(dollars in thousands)</b>		
Balance, January 1, 2011	\$ 5,591	\$
Acquired	9,072	33,320
Additions	11,127	1,537
Sales	(17,398)	(4,414)
Charge-offs	(896)	
Change in residential properties	(313)	
Change in repossessed personal property	(64)	
Balance, December 31, 2011	\$ 7,119	\$ 30,443

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





**Table of Contents****NOTE 8 GOODWILL AND OTHER INTANGIBLE ASSETS**

The following table shows the changes in the carrying amount of goodwill by segment for the years ended December 31, 2011 and 2010:

(dollars in thousands)	September 30, Community Banking	September 30, Other	September 30, Total
Balance, January 1, 2011	\$ 128,011	\$ 39,873	\$ 167,884
Goodwill acquired during the period	84,401	892	85,293
Balance, December 31, 2011	\$ 212,412	\$ 40,765	\$ 253,177
Balance, January 1, 2010	\$ 128,011	\$ 39,873	\$ 167,884
Goodwill acquired during the period			
Balance, December 31, 2010	\$ 128,011	\$ 39,873	\$ 167,884

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2011 and determined that no impairment existed as of this date. Old National recorded \$68.4 million of goodwill in the first quarter of 2011 associated with the acquisition of Monroe Bancorp, of which \$67.5 million was allocated to the Community Banking segment and \$0.9 million to the Other segment. Old National recorded \$16.9 million of goodwill in the third quarter of 2011 associated with the acquisition of Integra Bank, all of which was allocated to the Community Banking segment.

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

(dollars in thousands)	September 30, Gross Carrying Amount	September 30, Accumulated Amortization	September 30, Net Carrying Amount
<b>2011</b>			
Amortized intangible assets:			
Core deposit	\$ 39,265	\$ (20,815)	\$ 18,450
Customer business relationships	25,897	(16,312)	9,585
Customer trust relationships	3,622	(474)	3,148
Customer loan relationships	4,413	(1,972)	2,441
Total intangible assets	\$ 73,197	\$ (39,573)	\$ 33,624
<b>2010</b>			
Amortized intangible assets:			
Core deposit	\$ 26,810	\$ (14,646)	\$ 12,164
Customer business relationships	25,753	(14,581)	11,172
Customer loan relationships	4,413	(1,571)	2,842
Total intangible assets	\$ 56,976	\$ (30,798)	\$ 26,178

Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 5 to 25 years. During the first quarter of 2011, Old National recorded \$8.2 million of core deposit intangibles associated with the acquisition of Monroe Bancorp, which is included in the Community Banking segment. During the first quarter of 2011, Old National also recorded \$2.3 million of customer relationship intangibles associated with the trust business of Monroe Bancorp, which is included in the Other segment. During the second quarter of 2011, Old National recorded \$1.3 million of customer relationship intangibles associated with the trust business of Integra Wealth Management and Trust, which is included in the

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Other segment. During the second quarter of 2011, Old National reduced customer business relationships by \$0.1 million related to the sale of an insurance book of business, which is included in the Community Banking segment. During the third quarter of 2011, Old National recorded \$4.3 million of core deposit intangibles associated with the acquisition of Integra Bank, which is included in the Community Banking segment. During the fourth quarter of 2011, Old National recorded \$0.3 million of customer business relationships associated with the purchase of an insurance book of business and took accelerated amortization of \$0.7 million on its core deposit intangible related to the sale of the former Chicago-area Integra branches. See Note 23 to the consolidated financial statements for a description of the Company's operating segments.

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Old National reviews other intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Old National recorded an impairment charge of \$0.5 million during the fourth quarter of 2009. The charge related to a book of business held by one of the Company's insurance subsidiaries which experienced the loss of two significant customers. The insurance subsidiary is included in the "Other" column for segment reporting. Total amortization expense including impairment charges associated with intangible assets was \$8.8 million in 2011, \$6.1 million in 2010 and \$6.5 million in 2009.

Estimated amortization expense for the future years is as follows:

(dollars in thousands)	September 30, Estimated Amortization Expense
2012	\$ 8,286
2013	6,450
2014	5,225
2015	4,190
2016	3,347
Thereafter	6,126
<b>Total</b>	<b>\$ 33,624</b>

**NOTE 9 DEPOSITS**

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2011 and 2010 was \$421.9 million and \$466.3 million, respectively. At December 31, 2011, the scheduled maturities of total time deposits were as follows:

(dollars in thousands)	September 30,
Due in 2012	\$ 793,117
Due in 2013	351,107
Due in 2014	105,549
Due in 2015	74,970
Due in 2016	106,761
Thereafter	16,160
<b>Total</b>	<b>\$ 1,447,664</b>

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

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

	September 30, Federal Funds Purchased	September 30, Repurchase Agreements	September 30, Other Short-term Borrowings	September 30, Total
<b>(dollars in thousands)</b>				
<b>2011</b>				
Outstanding at year-end	\$ 103,010	\$ 321,725	\$ 114	\$ 424,849
Average amount outstanding	14,302	340,053	9,268	363,623
Maximum amount outstanding at any month-end	103,010	366,915	11,336	
Weighted average interest rate:				
During year	0.09%	0.15%	0.17%	0.15%
End of year	0.12	0.31	0.04	0.26
<b>2010</b>				
Outstanding at year-end	\$ 1,663	\$ 287,414	\$ 9,155	\$ 298,232
Average amount outstanding	7,012	312,773	8,750	328,535
Maximum amount outstanding at any month-end	41,365	348,403	10,423	
Weighted average interest rate:				
During year	0.18%	0.17%	1.27%	0.20%
End of year		0.16		0.16
<b>Other Short-term Borrowings</b>				

**Line of Credit**

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

**Treasury Investment Program**

As of December 31, 2011, Old National had a \$0.1 million note payable to a life insurance company which was assumed as part of the Integra Bank acquisition. This note payable, which carries an effective interest rate of 7.26%, matured in January 2012.

As of December 31, 2010, Old National had \$9.2 million of Treasury funds under the Treasury Tax and Loan Account program. These funds typically have a short duration, are collateralized and can be withdrawn by the Treasury Department at any time. At December 31, 2010, the effective interest rate on these funds was 0%.

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

The following table summarizes Old National and its subsidiaries' other borrowings at December 31:

(dollars in thousands)	September 30, 2011	September 30, 2010
<b>Old National Bancorp:</b>		
Junior subordinated debentures (variable rates 2.18% to 3.63% and fixed rates of 6.52%) maturing July 2033 to June 2037	\$ 16,000	\$ 8,000
Subordinated notes (fixed rate of 10.00%) maturing June 2019	13,000	
ASC 815 fair value hedge and other basis adjustments	(3,003)	(36)
<b>Old National Bank:</b>		
Securities sold under agreements to repurchase (variable rates 3.62% to 3.82%) maturing October 2014	50,000	50,000
Federal Home Loan Bank advances (fixed rates 1.24% to 8.34% and variable rate 2.68%) maturing June 2012 to January 2023	208,360	211,696
Subordinated bank notes (fixed rate of 6.75%) maturing October 2011		150,000
Capital lease obligation	4,261	4,307
ASC 815 fair value hedge and other basis adjustments	2,156	(2,056)
<b>Total other borrowings</b>	<b>\$ 290,774</b>	<b>\$ 421,911</b>

Contractual maturities of long-term debt at December 31, 2011, were as follows:

(dollars in thousands)	September 30,
Due in 2012	\$ 688
Due in 2013	75,650
Due in 2014	42,528
Due in 2015	66,763
Due in 2016	17,430
Thereafter	88,562
ASC 815 fair value hedge and other basis adjustments	(847)
<b>Total</b>	<b>\$ 290,774</b>

**FEDERAL HOME LOAN BANK**

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

**SUBORDINATED NOTES**

In 2011, Old National acquired Monroe Bancorp. Included in the acquisition was \$13 million of 10% subordinated notes. As shown in the table above, these subordinated notes mature June 2019. Old National may redeem the notes, in whole or in part, beginning June 30, 2012. According to capital guidelines, the portion of limited-life capital instruments that is includible in Tier 2 capital is limited within five years or less until maturity. As of December 31, 2011, \$13 million of the subordinated notes qualified as Tier 2 Capital for regulatory purposes.

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**SUBORDINATED BANK NOTES**

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

According to capital guidelines, the portion of limited-life capital instruments that is includible in Tier 2 capital is limited within five years or less until maturity. As of December 31, 2010, none of the subordinated bank notes qualified as Tier 2 Capital for regulatory purposes. Capital treatment ceased October 2010, or one year prior to the maturity date. The \$150 million subordinated bank notes matured in October 2011 and were paid in full.

**JUNIOR SUBORDINATED DEBENTURES**

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

ONB Capital Trust II issued \$100 million in preferred securities in April 2002. Old National guaranteed the payment of distributions on the trust preferred securities issued by ONB Capital Trust II. The preferred securities had a liquidation amount of \$25 per share with a cumulative annual distribution rate of 8.0% or \$2.00 per share payable quarterly and maturing on April 15, 2032. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by ONB Capital Trust II. On November 9, 2010, Old National's Board of Directors approved the redemption of the junior subordinated debentures. As a result of the redemption of the debentures, the trustee of ONB Capital Trust II redeemed all \$100 million of the 8% trust preferred securities on December 15, 2010. The \$3.0 million remaining balance of the unamortized issuance costs at the time of the redemption were expensed.

In 2007, Old National acquired St. Joseph Capital Trust I and St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust I and St. Joseph Capital Trust II. St. Joseph Capital Trust I issued \$3.0 million in preferred securities in July 2003. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 305 basis points, payable quarterly and maturing on July 11, 2033. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust I. St. Joseph Capital Trust II issued \$5.0 million in preferred securities in March 2005. The preferred securities had a cumulative annual distribution rate of 6.27% until March 2010 and now carry a variable rate of interest priced at the three-month LIBOR plus 175 basis points, payable quarterly and maturing on March 17, 2035. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust II. Old National, at any time, may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities.

In 2011, Old National acquired Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II in conjunction with its acquisition of Monroe Bancorp. Old National guarantees the payment of distributions on the trust preferred securities issued by Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II. Monroe Bancorp Capital Trust I issued \$3.0 million in preferred securities in July 2006. The preferred securities carried a fixed rate of interest of 7.15% until October 7, 2011 and thereafter a variable rate of interest priced at the three-month LIBOR plus 160 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Capital Trust I. Monroe Bancorp Statutory Trust II issued \$5.0 million in preferred securities in March 2007. The preferred securities carry a fixed rate of interest of 6.52% until June 15, 2012 and thereafter a variable rate of interest priced at the three-month LIBOR plus 160 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Statutory Trust II. Old National, at any time, may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole (or in part from time to time) on or after October 7, 2011 (for debentures owned by Monroe Bancorp Capital Trust I) and on or after June 15, 2012 (for debentures owned by Monroe Bancorp Statutory Trust II), and in whole or in part following the occurrence and continuance of certain adverse federal income tax or capital treatment events.

**Table of Contents****CAPITAL LEASE OBLIGATION**

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

At December 31, 2011, the future minimum lease payments under the capital lease were as follows:

	<b>September 30,</b>
<b>(dollars in thousands)</b>	
2012	\$ 390
2013	390
2014	410
2015	410
2016	410
Thereafter	10,084
<b>Total minimum lease payments</b>	<b>12,094</b>
Less amounts representing interest	7,833
<b>Present value of net minimum lease payments</b>	<b>\$ 4,261</b>

**NOTE 12 INCOME TAXES**

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

<b>(dollars in thousands)</b>	<b>September 30, 2011</b>	<b>September 30, 2010</b>	<b>September 30, 2009</b>
Provision at statutory rate of 35%	\$ 34,917	\$ 15,218	\$ (2,582)
Tax-exempt income:			
Tax-exempt interest	(8,035)	(9,060)	(14,545)
Section 291/265 interest disallowance	213	329	515
Bank owned life insurance income	(1,863)	(1,418)	(824)
<b>Tax-exempt income</b>	<b>(9,685)</b>	<b>(10,149)</b>	<b>(14,854)</b>
Reserve for unrecognized tax benefits	(623)	(652)	(706)
State income taxes	3,188	518	(3,829)
Other, net	(495)	331	857
<b>Income tax expense (benefit)</b>	<b>\$ 27,302</b>	<b>\$ 5,266</b>	<b>\$ (21,114)</b>
<b>Effective tax rate</b>	<b>27.4%</b>	<b>12.1%</b>	<b>286.2%</b>

The effective tax rate varied significantly from 2009 through 2011 due to increases in pre-tax income while tax-exempt income decreased. The provision for income taxes consisted of the following components for the years ended December 31:



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(dollars in thousands)	September 30, 2011	September 30, 2010	September 30, 2009
Income taxes currently payable			
Federal	\$ 6,742	\$ 2,687	\$ 4,248
State	288		
Deferred income taxes related to:			
Provision for loan losses	6,399	(460)	(3,042)
Other, net	13,873	3,039	(22,320)
Deferred income tax benefit	20,272	2,579	(25,362)
Provision for (benefit from) income taxes	\$ 27,302	\$ 5,266	\$ (21,114)

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In 2011, the primary components of the \$13,873 Other deferred income tax expense included \$(4,929) related to benefit plan accruals, \$7,782 related to purchase accounting, \$3,816 related to premises and equipment, \$(2,498) related to lease receivable, \$6,562 related to ASC 310 loans, and \$2,382 related to other real estate owned.

In 2010, the primary components of the \$3,039 Other deferred income tax expense included \$4,762 related to benefit plan accruals, \$2,058 related to premises and equipment, \$(1,781) related to alternative minimum tax credit carryforwards and \$(1,823) related to low income housing credit carryforwards.

In 2009, the primary components of the \$(22,320) Other deferred income tax benefit included \$(2,897) related to our net operating loss, \$(3,024) related to benefit plan accruals, \$(9,451) related to other-than-temporary impairment and \$(9,076) related to alternative minimum tax credit carryforwards.

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

(dollars in thousands)	September 30, 2011	September 30, 2010
<b>Deferred Tax Assets</b>		
Allowance for loan losses, net of recapture	\$ 24,100	\$ 29,334
Benefit plan accruals	7,881	1,369
AMT credit	25,765	25,509
Unrealized losses on benefit plans	9,665	7,715
Net operating loss	2,860	3,452
Premises and equipment	30,348	35,657
Federal tax credits	4,066	3,621
Other-than-temporary-impairment	9,776	9,624
Loans ASC 310	63,658	
Other real estate owned	3,209	422
Other, net	6,032	6,005
<b>Total deferred tax assets</b>	<b>187,360</b>	122,708
<b>Deferred Tax Liabilities</b>		
Accretion on investment securities	(717)	(559)
Lease receivable, net	(5,263)	(7,761)
Purchase accounting	(4,215)	(11,605)
FDIC indemnification asset	(64,672)	
Unrealized gains on available-for-sale investment securities	(15,873)	(2,600)
Unrealized gains on held-to-maturity securities	(3,160)	(3,773)
Unrealized gains on hedges	(96)	(567)
Other, net	(1,672)	(1,940)
<b>Total deferred tax liabilities</b>	<b>(95,668)</b>	(28,805)
<b>Net deferred tax assets</b>	<b>\$ 91,692</b>	<b>\$ 93,903</b>

The net deferred tax asset is included with other assets on the balance sheet. No valuation allowance was recorded at December 31, 2011 and 2010 because, based on current expectations, Old National believes it will generate sufficient income in future years to realize deferred tax assets. Old National did not have a federal net operating loss carryforward at December 31, 2011 or 2010, respectively. Old National has alternative minimum tax credit carryforwards at December 31, 2011 and 2010 of \$25.8 million and \$25.5 million, respectively. The alternative minimum tax credit carryforward does not expire. Old National has federal tax credit carryforwards at December 31, 2011 and 2010 of \$4.1 million and \$3.6 million, respectively. The federal tax credits consist of new market tax credits and low-income housing credits. If not used, the federal tax credit carryforwards will begin to expire in 2026. Old National has state net operating loss carryforwards totaling \$52.5 million and \$63.7 million at December 31, 2011 and 2010, respectively. If not used, the net operating loss carryforwards will begin to expire in 2022.



**Table of Contents****Unrecognized Tax Benefits**

The Company adopted FASB ASC 740-10, Income Taxes (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), on January 1, 2007. Unrecognized state income tax benefits are reported net of their related deferred federal income tax benefit.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(dollars in thousands)	September 30, 2011	September 30, 2010	September 30, 2009
Balance at January 1	\$ 4,553	\$ 8,500	\$ 7,513
Additions based on tax positions related to the current year	4	3,806	7,293
Reductions due to statute of limitations expiring	(412)	(3,440)	(5,186)
Reductions for tax positions of prior years		(4,313)	(1,120)
Balance at December 31	\$ 4,145	\$ 4,553	\$ 8,500

Approximately \$0.35 million of unrecognized tax benefits, net of interest, if recognized, would favorably affect the effective income tax rate in future periods. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

It is the Company's policy to recognize interest and penalties accrued relative to unrecognized tax benefits in their respective federal or state income tax accounts. The Company recorded interest and penalties in the income statement for the years ended December 31, 2011, 2010 and 2009 of \$(0.2) million, \$0.3 million, and \$0, respectively. The amount accrued for interest and penalties in the balance sheet at December 31, 2011 and 2010 was \$1.4 million and \$1.6 million, respectively.

The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. The 2008 through 2011 tax years are open and subject to examination.

In the third quarter of 2011, the company reversed \$0.62 million related to uncertain tax positions accounted for under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The positive \$0.62 million income tax reversal relates to the 2007 statute of limitations expiring. The statute of limitations expired in the third quarter of 2011. As a result, the Company reversed a total of \$0.62 million from its unrecognized tax benefit liability which includes \$0.21 million of interest.

In the third quarter of 2010, the Company reversed \$0.65 million related to uncertain tax positions accounted for under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The positive \$0.65 million income tax reversal relates to the 2006 statute of limitations expiring. The statute of limitations expired in the third quarter of 2010. As a result, the Company reversed a total of \$0.65 million from its unrecognized tax benefit liability which includes \$0.05 million of interest.

In the third quarter of 2009, the Company reversed \$0.7 million related to uncertain tax positions accounted for under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The positive \$0.7 million income tax reversal relates to the 2005 statute of limitations expiring. The statute of limitations expired in the third quarter of 2009. As a result, the Company reversed a total of \$0.7 million from its unrecognized tax benefit liability which includes \$0.05 million of interest.

**NOTE 13 EMPLOYEE BENEFIT PLANS****RETIREMENT PLAN AND RESTORATION PLAN**

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five consecutive 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.



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

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

(dollars in thousands)	September 30, 2011	September 30, 2010
<b>Change in Projected Benefit Obligation</b>		
Balance at January 1	\$ 42,162	\$ 41,937
Interest cost	2,099	1,990
Benefits paid	(937)	(983)
Actuarial loss	6,262	1,233
Settlement	(3,033)	(2,015)
<b>Projected Benefit Obligation at December 31</b>	<b>46,553</b>	42,162
<b>Change in Plan Assets</b>		
Fair value at January 1	40,101	31,275
Actual return on plan assets	(206)	4,177
Employer contributions	414	7,647
Benefits paid	(937)	(983)
Settlement	(3,033)	(2,015)
<b>Fair value of Plan Assets at December 31</b>	<b>36,339</b>	40,101
<b>Funded status at December 31</b>	<b>(10,214)</b>	(2,061)
Amounts recognized in the statement of financial position at December 31:		
Accrued benefit liability	\$ (10,214)	\$ (2,061)
Net amount recognized	\$ (10,214)	\$ (2,061)
Amounts recognized in accumulated other comprehensive income at December 31:		
Net actuarial loss	\$ 24,162	\$ 19,284
<b>Total</b>	<b>\$ 24,162</b>	<b>\$ 19,284</b>

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$4.0 million.

The accumulated benefit obligation and the projected benefit obligation were equivalent for the defined benefit pension plans and were \$46.6 million and \$42.2 million at December 31, 2011 and 2010, respectively.

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

(dollars in thousands)	September 30, 2011	September 30, 2010	September 30, 2009
<b>Net Periodic Benefit Cost</b>			
Interest cost	\$ 2,099	\$ 1,990	\$ 1,974
Expected return on plan assets	(2,704)	(1,960)	(1,933)
Recognized actuarial loss	2,755	1,603	1,453
Net periodic benefit cost	\$ 2,150	\$ 1,633	\$ 1,494
Settlement cost	1,539	883	
Total net periodic benefit cost	\$ 3,689	\$ 2,516	\$ 1,494
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income</b>			
Net actuarial (gain)/loss	\$ 9,172	\$ (983)	\$ 3,342
Amortization of net actuarial loss	(2,755)	(1,603)	(1,453)
Settlement cost	(1,539)	(883)	
Total recognized in Other Comprehensive Income	\$ 4,878	\$ (3,469)	\$ 1,889
<b>Total recognized in net periodic benefit cost and other comprehensive income</b>	<b>\$ 8,567</b>	<b>\$ (953)</b>	<b>\$ 3,383</b>

The weighted-average assumptions used to determine the benefit obligations as of the end of the years indicated and the net periodic benefit cost for the years indicated are presented in the table below. Because the plans are frozen, increases in compensation are not considered.

	September 30, 2011	September 30, 2010	September 30, 2009
<b>Benefit obligations:</b>			
Discount rate at the end of the period	4.55%	5.50%	5.25%
<b>Net periodic benefit cost:</b>			
Discount rate at the beginning of the period	5.50%	5.25%	6.25%
Expected return on plan assets	8.00	8.00	8.00
Rate of compensation increase	N/A	N/A	N/A

The expected long-term rate of return for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation of the plan. The discount rate used reflects the expected future cash flow based on Old National's funding valuation assumptions and participant data as of the beginning of the plan year. The expected future cash flow is discounted by the Principal Pension Discount yield curve as of December 31, 2011.

Old National's asset allocation of the Retirement Plan as of year-end is presented in the following table. Old National's Restoration Plan is unfunded.

Asset Category	September 30, Expected Long-Term Rate of Return	September 30, 2011 Target Allocation	September 30, 2011	September 30, 2010	September 30, 2009
Equity securities	9.00% - 9.50%	40 - 70%	61%	68%	71%

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Debt securities	4.00% - 5.85%	30 - 60%	<b>34</b>	27	29
Cash equivalents		0 - 15%	<b>5</b>	5	
Total			<b>100%</b>	100%	100%

The Company's overall investment strategy is to achieve a mix of approximately 40% to 70% of equity securities, 30% to 60% of debt securities and 0% to 15% of cash equivalents. Fixed income securities and cash equivalents must meet minimum rating standards. Exposure to any particular company or industry is also limited. The investment policy is reviewed annually. There was no Old National stock in the plan as of December 31, 2011, 2010 and 2009, respectively.



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The fair value of the Company's plan assets are determined based on observable level 1 or 2 pricing inputs, including quoted prices for similar assets in active or non-active markets. As of December 31, 2011, the fair value of plan assets, by asset category, is as follows:

(dollars in thousands)	September 30,	September 30, Fair Value Measurements at December 31, 2011 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, Fair Value Measurements at December 31, 2011 Using Significant Other Observable Inputs (Level 2)	September 30, Fair Value Measurements at December 31, 2011 Using Significant Unobservable Inputs (Level 3)
<b>Plan Assets</b>				
Large U.S. Equity	\$ 15,390	\$	\$ 15,390	\$
International Equity	6,846		6,846	
Short-Term Fixed Income	1,870		1,870	
Fixed Income	12,233		12,233	
Total Plan Assets	\$ 36,339	\$	\$ 36,339	\$

As of December 31, 2010, the fair value of plan assets, by asset category, was as follows:

(dollars in thousands)	September 30,	September 30, Fair Value Measurements at December 31, 2010 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, Fair Value Measurements at December 31, 2010 Using Significant Other Observable Inputs (Level 2)	September 30, Fair Value Measurements at December 31, 2010 Using Significant Unobservable Inputs (Level 3)
<b>Plan Assets</b>				
Large U.S. Equity	\$ 18,740	\$	\$ 18,740	\$
International Equity	8,334		8,334	
Short-Term Fixed Income	2,036		2,036	
Fixed Income	10,991		10,991	
Total Plan Assets	\$ 40,101	\$	\$ 40,101	\$

As of December 31, 2011, expected future benefit payments related to Old National's defined benefit plans were as follows:

(dollars in thousands)	September 30,
2012	\$ 6,440
2013	4,850
2014	4,070
2015	3,540
2016	3,250
Years 2017 - 2021	16,360

Old National expects to contribute cash of \$0.5 million to the pension plans in 2012.

**EMPLOYEE STOCK OWNERSHIP PLAN**

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The Employee Stock Ownership and Savings Plan (401k) permits employees to participate the first month following one month of service. Effective as of April 1, 2010, the Company suspended safe harbor matching contributions to the Plan. However, the Company may make discretionary matching contributions to the Plan. For 2010 and 2011, the Company matched 50% of employee compensation deferral contributions, up to six percent of compensation. In addition to matching contributions, Old National may contribute to the Plan an amount designated as a profit sharing contribution in the form of Old National Bancorp stock or cash. Old National's Board of Directors designated no

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discretionary profit sharing contributions in 2011, 2010 or 2009. All contributions vest immediately and plan participants may elect to redirect funds among any of the investment options provided under the plan. During the years ended December 31, 2011, 2010 and 2009, the number of Old National shares allocated to the plan were 1.6 million, 1.5 million and 1.7 million, respectively. All shares owned through the plan are included in the calculation of weighted-average shares outstanding for purposes of calculating diluted and basic earnings per share. Contribution expense under the plan was \$3.2 million in 2011, \$4.3 million in 2010 and \$7.1 million in 2009.

**NOTE 14 STOCK-BASED COMPENSATION****STOCK-BASED COMPENSATION**

The Company's 2008 Incentive Compensation Plan, which was shareholder-approved, permits the grant of share-based awards to its employees. At December 31, 2011, 2.5 million shares were available for issuance. The granting of awards to key employees is typically in the form of restricted stock or options to purchase common shares of stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Total compensation cost that has been charged against income for these plans was \$3.4 million, \$2.4 million, and \$1.3 million for 2011, 2010, and 2009, respectively. The total income tax benefit was \$1.4 million, \$0.9 million, and \$0.5 million, respectively.

*Stock Options*

Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant; these option awards have vesting periods ranging from 3 to 5 years and have 10-year contractual terms.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model and the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted represents the period of time that options granted are expected to be outstanding and is calculated using the simplified method allowed by SAB 110. The simplified method is used in lieu of historical experience because Old National does not have adequate historical experience to provide a reasonable basis upon which to estimate expected term. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions as of grant date. In connection with the acquisition of Monroe Bancorp on January 1, 2011, 0.3 million options for shares of Monroe Bancorp stock were converted to 0.3 million options for shares of Old National Bancorp stock. Old National recorded no incremental expense associated with the conversion of these options.

	September 30, 2011	September 30, 2010	September 30, 2009
Wtd-average risk-free interest rate	%	%	2.1%
Expected life of option (years)			6
Expected stock volatility	%	%	28.8%
Expected dividend yield	%	%	5.3%

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A summary of the activity in the stock option plan for 2011 follows:

	September 30, Shares	September 30, Weighted Average Exercise Price	September 30, Weighted Average Remaining Contractual Term in Years	September 30, Aggregate Intrinsic Value (in thousands)
(shares in thousands)				
Outstanding, January 1	6,018	\$ 20.37		
Granted				
Acquired	319	15.15		
Exercised	(28)	4.94		
Forfeited/expired	(1,645)	21.55		
Outstanding, December 31	4,664	\$ 19.69	1.7	\$ 163.1
Options exercisable at end of year	4,604	\$ 19.77	1.7	\$ 163.1

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

(dollars in thousands)	September 30, 2011	September 30, 2010	September 30, 2009
Intrinsic value of options exercised	\$ 175	\$ 13	\$ 44
Cash received from option exercises	140	12	97
Tax benefit realized from option exercises			
Weighted average fair value of options granted			2.03

As of December 31, 2011, there was \$9 thousand of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 0.09 year.

During 2009, the Company modified the term of 23 thousand share options. As a result of the modification, the Company recognized additional compensation expense of \$35 thousand for the year ended December 31, 2009. There were no modifications during 2011 or 2010.

*Restricted Stock*

Restricted stock awards require certain service-based or performance requirements and commonly have vesting periods ranging from 3 to 5 years. Compensation expense is recognized over the vesting period of the award based on the fair value of the stock at the date of issue adjusted for various performance conditions.

A summary of changes in the Company's nonvested shares for the year follows:

(shares in thousands)	September 30, Number Outstanding	September 30, Weighted Average Grant-Date Fair Value
Nonvested balance at January 1, 2011	376	\$ 14.49
Granted during the year	127	11.44
Vested during the year	(94)	13.74
Forfeited during the year	(147)	15.23
Nonvested balance at December 31, 2011	262	\$ 12.88

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As of December 31, 2011, there was \$1.4 million of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.72 years. The total fair value of the shares vested during the years ended December 31, 2011, 2010 and 2009 was \$1.0 million, \$1.3 million and \$1.4 million, respectively.

During the third quarter of 2011, the Company modified the vesting eligibility of 10 thousand shares of restricted stock issued to an employee. As a result of the modification, the Company reversed \$0.1 million of expense for the year ended December 31, 2011. There were no restricted stock modifications during 2010 or 2009.

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

Restricted stock units require certain performance requirements and have vesting periods of 3 years. Compensation expense is recognized over the vesting period of the award based on the fair value of the stock at the date of issue adjusted for various performance conditions.

A summary of changes in the Company's nonvested shares for the year follows:

(shares in thousands)	September 30, Number Outstanding	September 30, Weighted Average Grant-Date Fair Value
Nonvested balance at January 1, 2011	253	\$ 12.83
Granted during the year	159	12.23
Forfeited during the year	(12)	12.66
Reinvested dividend equivalents	10	11.92
Nonvested balance at December 31, 2011	410	\$ 12.58

As of December 31, 2011, 2010 and 2009, there was \$2.4 million, \$1.8 million and \$0.9 million, respectively, of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.7 years. Old National began granting restricted stock units during 2009 and no shares had vested as of December 31, 2011.

**NOTE 15 OUTSIDE DIRECTOR STOCK COMPENSATION PROGRAM** Old National maintains a director stock compensation program covering all outside directors. Compensation shares are earned semi-annually. A maximum of 165,375 shares of common stock is available for issuance under this program. As of December 31, 2011, Old National had issued 67,170 shares under this program.

**NOTE 16 SHAREHOLDERS' EQUITY****DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN**

Old National has a dividend reinvestment and stock purchase plan under which common shares issued may be either repurchased shares or authorized and previously unissued shares. A new plan became effective on August 17, 2009, with total authorized and unissued common shares reserved for issuance of 3.4 million. In 2011 and 2010, no shares were issued related to these plans. In 2009, 195 thousand shares were issued related to these plans with proceeds of approximately \$2.0 million. As of December 31, 2011, 3.3 million authorized and unissued common shares were reserved for issuance under the plan.

**EMPLOYEE STOCK PURCHASE PLAN**

Old National has an employee stock purchase plan under which eligible employees can purchase common shares at a price not less than 95% of the fair market value of the common shares on the purchase date. The amount of common shares purchased can not exceed ten percent of the employee's compensation. The maximum number of shares that may be purchased under this plan is 500,000 shares. In 2011, 22 thousand shares were issued related to this plan with proceeds of approximately \$222 thousand. In 2010, 19 thousand shares were issued related to this plan with proceeds of approximately \$197 thousand.

**SHAREHOLDER RIGHTS PLAN**

Old National had a Rights Agreement whereby one right is distributed for each outstanding share of Old National's common stock. The rights became exercisable on the tenth day following a public announcement that a person had acquired or intended to acquire beneficial ownership of 20% or more of Old National's outstanding common stock. Upon exercising the rights, the holder was entitled to buy 1/100 of a share of Junior Preferred Stock at \$60, subject to adjustment, for every right held. Upon the occurrence of certain events, the rights could be redeemed by Old National at a price of \$0.01 per right.



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In the event an acquiring party became the beneficial owner of 20% or more of Old National's outstanding shares, rights holders (other than the acquiring person) could purchase two shares of Old National common stock for the price of one share at the then market price. If Old National was acquired and was not the surviving corporation, or if Old National survived a merger but had all or part of its common stock exchanged, each rights holder would be entitled to acquire shares of the acquiring company with a value of two times the then exercise price for each right held.

The Old National Rights Agreement expired on March 1, 2010. As previously disclosed in our current report on Form 8-K filed with the SEC on February 2, 2010, Old National's Board of Directors elected not to take action to amend or extend the term of the Rights Agreement.

## **PREFERRED STOCK**

On December 12, 2008, Old National announced that it had entered into an agreement to sell Series T Preferred Stock having a liquidation value of \$100 million to the Treasury Department as part of the CPP for healthy financial institutions announced in late October 2008. As part of the CPP, Old National entered into a Letter Agreement and Securities Purchase Agreement with the Treasury Department on December 12, 2008, pursuant to which Old National sold (i) 100,000 shares of Old National's Series T Preferred Stock and (ii) Warrants to purchase up to 813,008 shares of Old National's common stock at an initial per share exercise price of \$18.45. The net proceeds were allocated between the Series T Preferred Stock and Warrants based on relative fair value. The Series T Preferred Stock would be accreted to liquidation value over the expected life of the shares, with accretion charged to retained earnings.

The Series T Preferred Stock qualified as Tier 1 capital and the Treasury Department was entitled to cumulative dividends at a rate of 5% per year for the first five years, and 9% per year thereafter. The Series T Preferred Stock had priority in the payment of dividends over any cash dividends paid to common stockholders. The adoption of ARRA permitted Old National to redeem the Series T Preferred Stock without penalty and without the need to raise new capital, subject to the Treasury's consultation with Old National's regulatory agency. On March 31, 2009, Old National accelerated the accretion of the \$2.6 million discount and repurchased all of the \$100 million of Series T Preferred Stock from the Treasury Department.

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

## **COMMON STOCK**

The December 31, 2011 balance includes approximately \$90.1 million from the approximately 7.6 million shares of common stock that were issued in the acquisition of Monroe Bancorp on January 1, 2011.

## **NOTE 17 FAIR VALUE**

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

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

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

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





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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 swap and libor curves plus spreads that adjust for loss severities, volatility, credit risk and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

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

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

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

(dollars in thousands)	September 30, Carrying Value	September 30, Fair Value Measurements at December 31, 2011 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, Fair Value Measurements at December 31, 2011 Using Significant Other Observable Inputs (Level 2)	September 30, Fair Value Measurements at December 31, 2011 Using Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Trading securities	\$ 2,816	\$ 2,816	\$	\$
Investment securities available-for-sale:				
U.S. Treasury	65,769	65,769		
U.S. Government-sponsored entities and agencies	173,185		173,185	
Mortgage-backed securities Agency	1,182,255		1,182,255	
Mortgage-backed securities Non-agency	85,900		85,900	
States and political subdivisions	402,844		401,538	1,306
Pooled trust preferred securities	7,327			7,327
Other securities	153,996		153,996	
Residential loans held for sale	4,528		4,528	
Derivative assets	44,415		44,415	
<b>Financial Liabilities</b>				
Derivative liabilities	37,332		37,332	

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(dollars in thousands)	September 30, Carrying Value	September 30, Fair Value Measurements at December 31, 2010 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, Fair Value Measurements at December 31, 2010 Using Significant Other Observable Inputs (Level 2)	September 30, Fair Value Measurements at December 31, 2010 Using Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Investment securities available-for-sale:				
U.S. Treasury	\$ 62,550	\$ 62,550	\$	\$
U.S. Government-sponsored entities and agencies	315,133		315,133	
Mortgage-backed securities Agency	944,446		944,446	
Mortgage-backed securities Non-agency	126,806		126,806	
States and political subdivisions	348,924		348,924	
Pooled trust preferred securities	8,400			8,400
Other securities	153,963		153,963	
Residential loans held for sale	3,819		3,819	
Derivative assets	34,082		34,082	
<b>Financial Liabilities</b>				
Derivative liabilities	29,721		29,721	

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the twelve months ended December 31, 2011:

(dollars in thousands)	September 30, Fair Value Measurements using Significant Unobservable Inputs (Level 3)	September 30, Fair Value Measurements using Significant Unobservable Inputs (Level 3)
	Pooled Trust Preferred Securities Available- for-Sale	State and Political Subdivisions
Beginning balance, January 1, 2011	\$ 8,400	\$
Accretion/(amortization) of discount or premium	(72)	
Payments received	(992)	
Credit loss write-downs	(888)	
Increase/(decrease) in fair value of securities	879	
Transfer in at December 31		1,306
Ending balance, December 31, 2011	\$ 7,327	\$ 1,306

Included in the income statement is \$72 thousand of expense included in interest income from the amortization of premiums on securities and \$888 thousand of credit losses included in noninterest income. The increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for sale, an increase in accumulated other comprehensive income, which is included in shareholders equity, and a decrease in other assets related to the tax impact.

\$1.3 million of state and political subdivision securities were transferred to Level 3 as of December 31, 2011 because Old National could no longer obtain evidence of observable inputs.

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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, 2010:

	September 30, Fair Value Measurements using Significant Unobservable Inputs (Level 3) Pooled Trust Preferred Securities Available- for-Sale
<b>(dollars in thousands)</b>	
Beginning balance, January 1, 2010	\$ 12,398
Accretion/(amortization) of discount or premium	(101)
Payments received	(163)
Credit loss write-downs	(930)
Increase/(decrease) in fair value of securities	(2,804)
Ending balance, December 31, 2010	\$ 8,400

Included in the income statement are \$101 thousand of expense included in interest income from the amortization of premiums on securities and \$930 thousand of credit losses included in noninterest income. The decrease in fair value is reflected in the balance sheet as a decrease in the fair value of investment securities available-for sale, a decrease in accumulated other comprehensive income, which is included in shareholders equity, and an increase in other assets related to the tax impact.

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

	September 30, Carrying Value	September 30, Fair Value Measurements at December 31, 2011 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, Fair Value Measurements at December 31, 2011 Using Significant Other Observable Inputs (Level 2)	September 30, Fair Value Measurements at December 31, 2011 Using Significant Unobservable Inputs (Level 3)
<b>(dollars in thousands)</b>				
<b>Collateral Dependent Impaired Loans</b>				
Commercial loans	\$ 23,150			\$ 23,150
Commercial real estate loans	14,894			14,894

Impaired commercial and commercial real estate loans that are deemed collateral dependent are valued based on the fair value of the underlying collateral. These estimates are based on the most recently available real estate appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the collateral. These impaired commercial and commercial real estate loans had a principal amount of \$49.4 million, with a valuation allowance of \$11.3 million at December 31, 2011. Old National recorded \$7.5 million of provision expense associated with these loans in 2011.

	September 30, Carrying Value	September 30, Fair Value Measurements at December 31, 2010 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	September 30, Fair Value Measurements at December 31, 2010 Using Significant Other Observable Inputs (Level 2)	September 30, Fair Value Measurements at December 31, 2010 Using Significant Unobservable Inputs (Level 3)
<b>(dollars in thousands)</b>				
<b>Collateral Dependent Impaired Loans</b>				
Commercial loans	\$ 14,721			\$ 14,721

Commercial real estate loans	8,112	8,112
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As of December 31, 2010, impaired commercial and commercial real estate loans had a principal amount of \$36.4 million, with a valuation allowance of \$13.6 million. Old National recorded \$7.1 million of provision expense associated with these loans in 2010.

**Financial instruments recorded using fair value option**

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

The Company has elected the fair value option for residential mortgage loans held for sale. For these loans, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on the financial assets (except any that are on nonaccrual status). None of these loans are 90 days or more past due, nor are any on nonaccrual status. Included in the income statement is \$173 thousand of interest income for residential loans held for sale for the year ended December 31, 2011. Included in the income statement is \$214 thousand of interest income for residential loans held for sale for the year ended December 31, 2010.

**Residential mortgage loans held for sale**

Old National has elected the fair value option for newly originated conforming fixed-rate and adjustable-rate first mortgage loans held for sale. These loans are intended for sale and are hedged with derivative instruments. Old National has elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification. The fair value option was not elected for loans held for investment.

As of December 31, 2011, the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected is as follows. Accrued interest at period end is included in the fair value of the instruments.

(dollars in thousands)	September 30, Aggregate Fair Value	September 30, Difference	September 30, Contractual Principal
Residential loans held for sale	\$ 4,528	\$ 99	\$ 4,429

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets carried at fair value for the twelve months ended December 31, 2011:

(dollars in thousands)	September 30, Other Gains and (Losses)	September 30, Interest Income	September 30, Interest (Expense)	September 30, Total Changes in Fair Values Included in Current Period Earnings
Residential loans held for sale	\$ 120	\$	\$ (1)	\$ 119

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

(dollars in thousands)	September 30, Aggregate Fair Value	September 30, Difference	September 30, Contractual Principal
Residential loans held for sale	\$ 3,819	\$ (20)	\$ 3,839

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

(dollars in thousands)	September 30, Other Gains and (Losses)	September 30, Interest Income	September 30, Interest (Expense)	September 30, Total Changes in Fair Values Included in Current Period Earnings
Residential loans held for sale	\$ (306)	\$ 2	\$	\$ (304)

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

(dollars in thousands)	September 30, Carrying Value	September 30, Fair Value
<b>2011</b>		
<b>Financial Assets</b>		
Cash, due from banks, federal funds sold and money market investments	\$ 222,872	\$ 222,872
Investment securities held-to-maturity:		
U.S. Government-sponsored entities and agencies	177,159	188,593
Mortgage-backed securities Agency	84,075	87,380
State and political subdivisions	216,345	224,717
Other securities	7,011	7,009
Federal Home Loan Bank stock	30,835	30,835
Loans, net (including covered loans)		
Commercial	1,321,445	1,366,316
Commercial real estate	1,366,311	1,421,941
Residential real estate	1,038,280	1,124,222
Consumer credit	983,107	1,014,807
FDIC indemnification asset	147,566	142,078
Accrued interest receivable	44,801	44,801
<b>Financial Liabilities</b>		
Deposits:		
Noninterest-bearing demand deposits	\$ 1,728,546	\$ 1,728,546
NOW, savings and money market deposits	3,435,353	3,435,353
Time deposits	1,447,664	1,481,854
Short-term borrowings		
Federal funds purchased	103,010	103,010
Repurchase agreements	321,725	321,722
Other short-term borrowings	114	114
Other borrowings:		
Junior subordinated debentures	16,000	12,697
Subordinated notes	13,000	12,999
Repurchase agreements	50,000	54,484
Federal Home Loan Bank advances	208,360	225,711
Capital lease obligation	4,261	5,079
Accrued interest payable	5,239	5,239
Standby letters of credit	431	431
<b>Off-Balance Sheet Financial Instruments</b>		
Commitments to extend credit	\$	\$ 1,720



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(dollars in thousands)	September 30, Carrying Value	September 30, Fair Value
<b>2010</b>		
<b>Financial Assets</b>		
Cash, due from banks, federal funds sold and money market investments	\$ 251,552	\$ 251,552
Investment securities held-to-maturity:		
U.S. Government-sponsored entities and agencies	303,265	301,809
Mortgage-backed securities Agency	117,013	119,080
State and political subdivisions	217,381	204,379
Other securities	551	375
Federal Home Loan Bank stock	31,937	31,937
Loans, net (including impaired loans)		
Commercial	1,185,194	1,220,464
Commercial real estate	909,742	952,885
Residential real estate	662,396	710,865
Consumer credit	913,810	969,263
Accrued interest receivable	42,971	42,971
<b>Financial Liabilities</b>		
Deposits:		
Noninterest-bearing demand deposits	\$ 1,276,024	\$ 1,276,024
NOW, savings and money market deposits	2,711,644	2,711,644
Time deposits	1,475,257	1,520,093
Short-term borrowings		
Federal funds purchased	1,663	1,663
Repurchase agreements	287,414	287,416
Other short-term borrowings	9,155	9,155
Other borrowings:		
Junior subordinated debentures	8,000	7,998
Repurchase agreements	50,000	54,104
Federal Home Loan Bank advances	211,696	220,531
Subordinated bank notes	150,000	154,420
Capital lease obligation	4,307	5,138
Accrued interest payable	7,860	7,860
Standby letters of credit	518	518
<b>Off-Balance Sheet Financial Instruments</b>		
Commitments to extend credit	\$	\$ 1,311

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

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

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

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

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

**Covered loans:** Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting current market rates for new originations of comparable loans adjusted for the risk inherent in the cash flow estimates. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.

**FDIC indemnification asset:** The loss sharing asset was measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable with the assets should the Bank choose to dispose of the assets. Fair value was originally estimated using projected cash flows related to the loss sharing agreement based on the expected reimbursements for losses and the applicable loss sharing percentage and these projected cash flows are updated with the cash flow estimates on covered assets. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

**Accrued interest receivable:** The carrying amount approximates fair value.

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

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

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

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

**Off-balance sheet financial instruments:** Fair values for off-balance sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements. For further information regarding the amounts of these financial instruments, see Notes 19 and 20.

## **NOTE 18 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 \$192.5 million and \$195.0 million at December 31, 2011 and December 31, 2010, respectively. The December 31, 2011 balances consist of \$92.5 million notional amount of receive-fixed interest rate swaps on certain of its FHLB advances and \$100.0 million notional amount of receive-fixed interest rate swaps on certain commercial loans. The December 31, 2010 balances consist of \$95.0 million notional amount of receive-fixed interest rate swaps on certain of its FHLB advances and \$100.0 million notional amount of receive-fixed interest rate swaps on certain commercial loans. These hedges were entered into to manage both interest rate risk and asset sensitivity on the balance sheet. These derivative instruments are recognized on the balance sheet at their fair value.

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In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At December 31, 2011, the notional amount of the interest rate lock commitments and forward commitments were \$8.7 million and \$10.2 million, respectively. At December 31, 2010, the notional amount of the interest rate lock commitments and forward commitments were \$7.7 million and \$9.3 million, respectively. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitment to fund the loans. All derivative instruments are recognized on the balance sheet at their fair value.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were \$448.5 million and \$448.5 million, respectively, at December 31, 2011. Included in the notional amounts at December 31, 2011 is \$66.7 million of customer derivative instruments assumed in the Integra acquisition. At December 31, 2010, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were \$419.2 million and \$419.2 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps, foreign exchange forward contracts and commodity swaps and options. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

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

	September 30, December 31, 2011		September 30, December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Asset Derivatives</b>				
(dollars in thousands)				
<b>Derivatives designated as hedging instruments</b>				
Interest rate contracts	Other assets	\$ 7,444	Other assets	\$ 4,766
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 7,444</b>		<b>\$ 4,766</b>
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	Other assets	\$ 36,755	Other assets	\$ 28,269
Commodity contracts	Other assets		Other assets	132
Mortgage contracts	Other assets	216	Other assets	254
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 36,971</b>		<b>\$ 28,655</b>
<b>Total derivatives</b>		<b>\$ 44,415</b>		<b>\$ 33,421</b>

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(dollars in thousands)	September 30,	September 30, Liability Derivatives		September 30,
	December 31, 2011 Balance Sheet Location	Fair Value	December 31, 2010 Balance Sheet Location	Fair Value
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	Other liabilities	\$ 37,332	Other liabilities	\$ 28,928
Commodity contracts	Other liabilities		Other liabilities	132
<b>Total derivatives not designated as hedging instruments</b>		\$ 37,332		\$ 29,060
<b>Total derivatives</b>		\$ 37,332		\$ 29,060

The effect of derivative instruments on the Consolidated Statement of Income for the twelve months ended December 31, 2011 and 2010 are as follows:

(dollars in thousands)	September 30,	September 30,	September 30,
Derivatives in	Year ended December 31, 2011	Year ended December 31, 2011	Year ended December 31, 2010
<b>Fair Value Hedging</b>			
<b>Relationships</b>	<b>Location of Gain or (Loss) Recognized in Income on Derivative</b>	<b>Amount of Gain or (Loss) Recognized in Income on Derivative</b>	
Interest rate contracts (1)	Interest income / (expense)	\$ 2,938	\$ 3,656
Interest rate contracts (2)	Other income /(expense)	892	1,621
<b>Total</b>		\$ 3,830	\$ 5,277

**Derivatives in**

Cash Flow Hedging	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
<b>Relationships</b>			
Interest rate contracts (1)	Interest income / (expense)	\$ 1,593	\$ 1,553
<b>Total</b>		\$ 1,593	\$ 1,553

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
Interest rate contracts (3)	Other income/(expense)	\$ 82	\$ (129)
Mortgage contracts	Mortgage banking revenue	(38)	(117)
<b>Total</b>		\$ 44	\$ (246)

- (1) Amounts represent the net interest payments as stated in the contractual agreements.
- (2) Amounts represent ineffectiveness on derivatives designated as fair value hedges.
- (3) Includes the valuation differences between the customer and offsetting counterparty swaps.

**NOTE 19 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.). Although Old National continues to believe that it has meritorious defenses to each of the claims in the lawsuit, given the risks and uncertainty of litigation Old National reached a tentative settlement with the plaintiffs in mid-September of 2011. As such, two million dollars was accrued in the third quarter of 2011 in anticipation of negotiating final settlement and full resolution of this matter. In the event of settlement, a portion of the anticipated settlement funds may be temporarily put in escrow to account for uncertain contingencies.

In November 2010, Old National was named in a class action lawsuit, together with other banks, challenging Old National Bank's checking account practices. The plaintiff seeks damages and other relief, including restitution. Old National believes it has meritorious defenses to the claims brought by the plaintiff. At this phase of the litigation, it is not possible for management of Old National to determine the probability of a material adverse outcome or reasonably estimate the amount of any loss. No class has yet been certified and discovery is ongoing. On December 8, 2011, the plaintiff sought leave to add additional individuals as plaintiffs. Old National has objected and the Court has not yet ruled, which has temporarily suspended action in this matter, other than the aforementioned discovery exchanges.

**LEASES**

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

In prior periods, Old National entered into sale leaseback transactions for four office buildings in downtown Evansville, Indiana and eighty-eight financial centers. The properties sold had a carrying value of \$163.6 million. Old National received cash proceeds of approximately \$287.4 million, net of selling costs, resulting in a gain of approximately \$123.9 million. Approximately \$119.5 million of the gain was deferred and is being recognized over the term of the leases. As of December 31, 2011, \$28.9 million of the deferred gain had been recognized. The leases have original terms ranging from five to twenty-four years, and Old National has the right, at its option, to extend the term of certain of the leases for four additional successive terms of five years. Under the lease agreements, Old National is obligated to pay base rents of approximately \$25.4 million per year.

In March 2009, Old National acquired the Indiana retail branch banking network of Citizens Financial Group. The network included 65 leased locations. As of December 31, 2011, Old National had closed 24 of these locations and terminated the leases. The leases have terms of less than one year to ten years. Under the remaining lease agreements, Old National is obligated to pay a base rent of approximately \$2.2 million per year.

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

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC assisted transaction. The physical branch locations and leases were not immediately acquired by Old National in the acquisition. Old National had an option, exercisable for 90 days following the closing of the acquisition, to acquire, at fair value, any bank premises that were owned by, and to assume any leases relating to bank premises held by Integra. Old National reviewed the bank premises and related leases of Integra and acquired 17 of the Integra facilities. Rent expense of \$2.0 million was recorded during 2011 related to the leased properties prior to their closure.

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Total rental expense was \$33.7 million in 2011, \$31.4 million in 2010 and \$29.7 million in 2009. The following is a summary of future minimum lease commitments as of December 31, 2011:

(dollars in thousands)	September 30,
2012	\$ 33,136
2013	31,593
2014	30,148
2015	28,976
2016	28,433
Thereafter	269,466
<b>Total</b>	<b>\$ 421,752</b>

**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 \$1.220 billion and standby letters of credit of \$73.3 million at December 31, 2011. At December 31, 2011, approximately \$1.173 billion of the loan commitments had fixed rates and \$47 million had floating rates, with the fixed interest rates ranging from 2% to 21%. At December 31, 2010, loan commitments were \$1.106 billion and standby letters of credit were \$74.3 million. These commitments are not reflected in the consolidated financial statements. At December 31, 2011 and 2010, the balance of the allowance for credit losses on unfunded loan commitments was \$4.8 million and \$3.8 million, respectively.

At December 31, 2011 and 2010, Old National had credit extensions of \$24.2 million and \$25.7 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients. At December 31, 2011 and 2010, the unsecured portion was \$6.7 million and \$5.5 million respectively.

**NOTE 20 FINANCIAL GUARANTEES** Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At December 31, 2011, the notional amount of standby letters of credit was \$73.3 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.4 million. At December 31, 2010, the notional amount of standby letters of credit was \$74.3 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.5 million.

During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap has a notional amount of \$8.7 million at December 31, 2011.

**NOTE 21 REGULATORY RESTRICTIONS****RESTRICTIONS ON CASH AND DUE FROM BANKS**

Old National's affiliate bank is required to maintain reserve balances on hand and with the Federal Reserve Bank which are interest bearing and unavailable for investment purposes. The reserve balances at December 31 were \$42.5 million in 2011 and \$26.0 million in 2010. In addition, Old National had \$1.1 million as of both December 31, 2011 and 2010, respectively, in cash and due from banks which was held as collateral for collateralized swap positions.

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**RESTRICTIONS ON TRANSFERS FROM AFFILIATE BANK**

Regulations limit the amount of dividends an affiliate bank can declare in any year without obtaining prior regulatory approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. During the first quarter of 2009, Old National Bank received permission to pay a \$40 million dividend. Old National used the cash obtained from the dividend to repurchase the \$100 million of non-voting preferred shares from the U.S. Treasury. As a result of this special dividend, Old National Bank required approval of regulatory authority for the payment of dividends to Old National during 2010 and 2011. Prior regulatory approval to pay dividends will not be required in 2012.

**RESTRICTIONS ON THE PAYMENT OF DIVIDENDS**

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

**CAPITAL ADEQUACY**

Old National and Old National Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can elicit certain mandatory actions by regulators that, if undertaken, could have a direct material effect on Old National's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Old National and Old National Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Quantitative measures established by regulation to ensure capital adequacy require Old National and Old National Bank to maintain minimum amounts and ratios as set forth in the following table.

At December 31, 2011, Old National and Old National Bank exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory notification. To be categorized as well-capitalized, Old National Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios. There are no conditions or events since that notification that management believes have changed the institution's category.



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

(dollars in thousands)	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	For Well Capitalized Purposes Amount	Ratio
<b>2011</b>						
Total capital to risk-weighted assets						
Old National Bancorp	\$ 773,862	14.99%	\$ 413,082	8.00%	\$ N/A	N/A%
Old National Bank	683,368	13.40	407,835	8.00	509,794	10.00
Tier 1 capital to risk-weighted assets						
Old National Bancorp	697,534	13.51	206,541	4.00	N/A	N/A
Old National Bank	620,039	12.16	203,917	4.00	305,876	6.00
Tier 1 capital to average assets						
Old National Bancorp	697,534	8.29	336,710	4.00	N/A	N/A
Old National Bank	620,039	7.42	334,068	4.00	417,585	5.00
<b>2010</b>						
Total capital to risk-weighted assets						
Old National Bancorp	\$ 699,871	14.83%	\$ 377,669	8.00%	\$ N/A	N/A%
Old National Bank	576,533	12.43	370,968	8.00	463,710	10.00
Tier 1 capital to risk-weighted assets						
Old National Bancorp	640,469	13.57	188,835	4.00	N/A	N/A
Old National Bank	518,165	11.17	185,454	4.00	278,226	6.00
Tier 1 capital to average assets						
Old National Bancorp	640,469	9.01	284,226	4.00	N/A	N/A
Old National Bank	518,165	7.37	281,242	4.00	351,552	5.00

**Table of Contents****NOTE 22 PARENT COMPANY FINANCIAL STATEMENTS**

The following are the condensed parent company only financial statements of Old National Bancorp:

**OLD NATIONAL BANCORP (PARENT COMPANY ONLY)****CONDENSED BALANCE SHEETS**

(dollars in thousands)	September 30, 2011	September 30, December 31, 2010
<b>Assets</b>		
Deposits in affiliate bank	\$ 35,576	\$ 26,653
Trading securities at fair value	2,816	
Investment securities available for sale	1,204	976
Investment in affiliates:		
Banking subsidiaries	915,041	703,949
Non-banks	43,314	45,330
Advances to affiliates		45,177
Other assets	86,861	83,026
 Total assets	 \$ 1,084,812	 \$ 905,111
<b>Liabilities and Shareholders' Equity</b>		
Other liabilities	\$ 25,258	\$ 18,342
Other borrowings	25,998	7,964
Shareholders' equity	1,033,556	878,805
 Total liabilities and shareholders' equity	 \$ 1,084,812	 \$ 905,111

**OLD NATIONAL BANCORP (PARENT COMPANY ONLY)****CONDENSED STATEMENTS OF INCOME**

(dollars in thousands)	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
<b>Income</b>			
Dividends from affiliates	\$ 19,670	\$ 27,744	\$ 94,958
Net securities gains	20		666
Other income	1,372	1,020	647
Other income (loss) from affiliates	(1)	435	869
 Total income	 21,061	 29,199	 97,140
<b>Expense</b>			
Interest on borrowings	1,270	9,165	11,618
Other expenses	9,572	11,672	10,222
 Total expense	 10,842	 20,837	 21,840

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Income before income taxes and equity in undistributed earnings of affiliates	<b>10,219</b>	8,362	75,300
Income tax benefit	<b>(3,819)</b>	(7,833)	(8,063)
Income before equity in undistributed earnings of affiliates	<b>14,038</b>	16,195	83,363
Equity in undistributed earnings of affiliates	<b>58,422</b>	22,019	
Dividends receivable from affiliates in excess of earnings			(69,626)
Net Income	<b>\$ 72,460</b>	\$ 38,214	\$ 13,737

**Table of Contents****OLD NATIONAL BANCORP (PARENT COMPANY ONLY)****CONDENSED STATEMENT OF CASH FLOWS**

(dollars in thousands)	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, 2009
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 72,460	\$ 38,214	\$ 13,737
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	31	49	67
Net premium (discount) on investment securities			434
Net securities (gains) losses	(20)		(663)
Stock option expense	129	253	392
Restricted stock expense	3,307	2,116	918
(Increase) decrease in other assets	(4,927)	13,064	(6,302)
(Decrease) increase in other liabilities	3,628	(3,414)	2,450
Equity in undistributed earnings of affiliates	(58,422)	(22,019)	
Dividends received from affiliates in excess of earnings			69,626
<b>Total adjustments</b>	<b>(56,274)</b>	<b>(9,951)</b>	<b>66,922</b>
Net cash flows provided by operating activities	<b>16,186</b>	28,263	80,659
<b>Cash Flows From Investing Activities</b>			
Cash and cash equivalents of acquisitions	447		
Transfer subsidiary from parent to bank subsidiary		791	
Purchases of investment securities available-for-sale	1,081	(500)	(191,994)
Proceeds from sales of investment securities available-for-sale			192,222
Net payments from (advances to) affiliates	18,886	150,852	(145,989)
Purchases of premises and equipment		(7)	
Net cash flows provided by (used in) investing activities	<b>20,414</b>	151,136	(145,761)
<b>Cash Flows From Financing Activities</b>			
Payments related to retirement of debt		(150,000)	
Cash dividends paid on common stock	(26,513)	(24,361)	(30,380)
Cash dividends paid on preferred stock			(1,514)
Common stock repurchased	(1,526)	(705)	(353)
Repurchase of TARP preferred stock and warrants			(101,200)
Common stock reissued under stock option, restricted stock and stock purchase plans	140	12	97
Common stock issued	222	197	197,756
Net cash flows provided by (used in) financing activities	<b>(27,677)</b>	<b>(174,857)</b>	<b>64,406</b>
Net increase (decrease) in cash and cash equivalents	<b>8,923</b>	4,542	(696)
Cash and cash equivalents at beginning of period	<b>26,653</b>	22,111	22,807
Cash and cash equivalents at end of period	<b>\$ 35,576</b>	\$ 26,653	\$ 22,111

**NOTE 23 SEGMENT INFORMATION**

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

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

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

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

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

**SEGMENT INFORMATION**

(dollars in thousands)	September 30, Community Banking	September 30, Treasury	September 30, Other	September 30, Total
<b>2011</b>				
Net interest income	\$ 302,285	\$ (42,393)	\$ 12,981	\$ 272,873
Provision for loan losses	5,912		1,561	7,473
Noninterest income	120,170	13,235	49,478	182,883
Noninterest expense	287,097	747	60,677	348,521
Income (loss) before income taxes	129,446	(29,905)	221	99,762
Total assets	5,035,431	3,377,568	196,684	8,609,683
<b>2010</b>				
Net interest income	\$ 252,519	\$ (30,378)	\$ (3,725)	\$ 218,416
Provision for loan losses	30,806		(25)	30,781
Noninterest income	88,037	17,871	64,242	170,150
Noninterest expense	236,642	13,803	63,860	314,305
Income (loss) before income taxes	73,108	(26,310)	(3,318)	43,480
Total assets	3,759,529	3,396,189	108,174	7,263,892
<b>2009</b>				
Net interest income	\$ 287,404	\$ (47,490)	\$ (8,515)	\$ 231,399
Provision for loan losses	63,284	126	(130)	63,280
Noninterest income	94,132	5,422	63,906	163,460
Noninterest expense	270,249	7,878	60,829	338,956
Income (loss) before income taxes	48,003	(50,072)	(5,308)	(7,377)
Total assets	4,487,007	3,401,958	116,370	8,005,335

Included in net interest income in 2011 in the Community Banking segment are approximately \$37.3 million and \$24.8 million, respectively, associated with the January 1, 2011 acquisition of Monroe Bancorp and the July 29, 2011 acquisition of Integra Bank. The lower provision for loan losses in 2011 was attributable to the following factors: (1) the loss factors applied to our performing loan portfolio have decreased during 2011 compared to 2010 as charge-offs were substantially lower, (2) apart from those loans acquired in our two acquisitions, which are substantially accounted for at fair value, our total loans decreased \$16.2 million from December 31, 2010 to December 31, 2011, and (3) the percentage of our loan portfolio consisting of those loans where higher loss factors are applied (commercial and commercial real estate loans) fell to 48% in 2011 compared to 58% in 2010 while the percentage of our loan portfolio consisting of those loans where lower loss factors are applied (residential loans) increased to 21% in 2011 compared to 18% in 2010. Noninterest expense for 2011 includes \$21.2 million and \$25.9

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million, respectively, of costs associated with the addition of Monroe Bancorp and Integra Bank. Included in income before income taxes for 2011 are \$18.4 million and \$6.5 million, respectively, associated with the addition of Monroe Bancorp and Integra Bank.

**NOTE 24 INTERIM FINANCIAL DATA (UNAUDITED)**

The following table details the quarterly results of operations for the years ended December 31, 2011 and 2010.

**INTERIM FINANCIAL DATA**

(unaudited, dollars and shares in thousands, except per share data)	Sept 30, Quarters Ended 2011				Sept 30, Quarters Ended 2010			
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
Interest income	\$ 86,235	\$ 87,169	\$ 76,872	\$ 76,317	\$ 70,965	\$ 72,945	\$ 75,596	\$ 77,342
Interest expense	9,640	14,577	14,553	14,950	16,988	18,777	20,442	22,225
Net interest income	76,595	72,592	62,319	61,367	53,977	54,168	55,154	55,117
Provision for loan losses	1,036	(82)	3,207	3,312	7,100	6,400	8,000	9,281
Noninterest income	49,147	47,326	43,589	42,821	42,205	41,979	42,974	42,992
Noninterest expense	93,680	95,158	79,758	79,925	83,272	76,102	77,871	77,060
Income before income taxes	31,026	24,842	22,943	20,951	5,810	13,645	12,257	11,768
Income tax expense	8,812	8,045	5,927	4,518	84	1,749	1,734	1,699
Net income	\$ 22,214	\$ 16,797	\$ 17,016	\$ 16,433	\$ 5,726	\$ 11,896	\$ 10,523	\$ 10,069
Net income per share :								
Basic	\$ 0.23	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.07	\$ 0.13	\$ 0.12	\$ 0.12
Diluted	0.23	0.18	0.18	0.17	0.07	0.13	0.12	0.12
Average shares								
Basic	94,463	94,492	94,479	94,433	86,804	86,795	86,786	86,752
Diluted	94,866	94,785	94,701	94,670	87,005	86,931	86,911	86,797

Interest income increased in 2011 primarily as a result of the acquisition of Monroe Bancorp on January 1, 2011 and Integra Bank on July 29, 2011. The lower provision for loan losses in 2011 was attributable to the following factors: (1) the loss factors applied to our performing loan portfolio have decreased during 2011 compared to 2010 as charge-offs were substantially lower, (2) apart from those loans acquired in our two acquisitions, which are substantially accounted for at fair value, our total loans decreased \$16.2 million from December 31, 2010 to December 31, 2011, and (3) the percentage of our loan portfolio consisting of those loans where higher loss factors are applied (commercial and commercial real estate loans) fell to 48% in 2011 compared to 58% in 2010 while the percentage of our loan portfolio consisting of those loans where lower loss factors are applied (residential loans) increased to 21% in 2011 compared to 18% in 2010. Noninterest expense increased in 2011 primarily as a result of the acquisition of Monroe Bancorp on January 1, 2011 and Integra Bank on July 29, 2011.

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

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

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

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

Limitations on the Effectiveness of Controls. Management, including the principal executive officer and principal financial officer, does not expect that Old National's disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of 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. The Company implemented new internal controls over purchase accounting and subsequent Day 2 accounting during the last fiscal quarter. These controls include the development of system generated reports designed to improve on-going monitoring and reconciliation of purchased credit impaired loans and an oversight committee to review and approve the assumptions utilized to develop changes in cash flow estimates.

Refer to Item 8 for Management's Report on Internal Control over Financial Reporting.

**ITEM 9B. OTHER INFORMATION**

None.



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**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2011. The applicable information appearing in the Proxy Statement for the 2012 annual meeting is incorporated by reference.

Old National has adopted a code of ethics that applies to directors, officers, and all other employees including Old National's principal executive officer, principal financial officer and principal accounting officer. The text of the code of ethics is available on Old National's Internet website at [www.oldnational.com](http://www.oldnational.com) or in print to any shareholder who requests it. Old National intends to post information regarding any amendments to, or waivers from, its code of ethics on its Internet website.

**ITEM 11. EXECUTIVE COMPENSATION**

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2011. The applicable information appearing in our Proxy Statement for the 2012 annual meeting is incorporated by reference.

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

This information is omitted from this report, (with the exception of the Equity Compensation Plan Information, which is reported in Item 5 of this report and is incorporated herein by reference) pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2011. The applicable information appearing in the Proxy Statement for the 2012 annual meeting is incorporated by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2011. The applicable information appearing in the Proxy Statement for the 2012 annual meeting is incorporated by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2011. The applicable information appearing in the Proxy Statement for the 2012 annual meeting is incorporated by reference.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

1. Financial Statements:

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

Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets December 31, 2011 and 2010  
Consolidated Statements of Income Years Ended December 31, 2011, 2010 and 2009  
Consolidated Statements of Changes in Shareholders' Equity--Years Ended December 31, 2011, 2010 and 2009  
Consolidated Statements of Cash Flows Years Ended December 31, 2011, 2010 and 2009  
Notes to Consolidated Financial Statements

2. Financial Statement Schedules

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

3. Exhibits

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

Exhibit  
Number

2 Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession

2.1 Purchase and Assumption Agreement dated November 24, 2008 by and among Old National Bancorp, Old National Bank and RBS Citizens, National Association (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 25, 2008) and amended on March 20, 2009 (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2009).

2.2 Agreement and Plan of Merger dated as of October 5, 2010 by and among Old National Bancorp and Monroe Bancorp (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 6, 2010).

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- 2.3 Purchase and Assumption Agreement Whole Bank All Deposits, among Federal Deposit Insurance Corporation, receiver of Integra Bank National Association, Evansville, Indiana, the Federal Deposit Insurance Corporation and Old National Bank, dated July 29, 2011 (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2011).
  
- 2.4 Agreement and Plan of Merger dated as of January 24, 2012 by and between Old National Bancorp and Indiana Community Bancorp (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 25, 2012).
  
- 3.1 Articles of Incorporation of Old National, amended December 10, 2008 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008).

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- 3.2 By-Laws of Old National, amended July 23, 2009 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009).
  
- 4 Instruments defining rights of security holders, including indentures
  - 4.1 Senior Indenture between Old National and The Bank of New York Trust Company (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One, N.A.)), as trustee, dated as of July 23, 1997 (incorporated by reference to Exhibit 4.3 to Old National's Registration Statement on Form S-3, Registration No. 333-118374, filed with the Securities and Exchange Commission on December 2, 2004).
  
  - 4.2 Form of Indenture between Old National and J.P. Morgan Trust Company, National Association (as successor to Bank One, NA), as trustee (incorporated by reference to Exhibit 4.1 to Old National's Registration Statement on Form S-3, Registration No. 333-87573, filed with the Securities and Exchange Commission on September 22, 1999).
  
  - 4.3 First Indenture Supplement dated as of May 20, 2005, between Old National and J.P. Morgan Trust Company, as trustee, providing for the issuance of its 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).
  
  - 4.4 Form of 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).
  
- 10 Material contracts
  - (a) Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(a) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*
  
  - (b) Second Amendment to the Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(b) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*
  
  - (c) 2005 Directors Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(c) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*
  
  - (d) Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(d) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*
  
  - (e) Second Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(e) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*

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

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- (g) 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).\*
- (h) Summary of Old National Bancorp's Outside Director Compensation Program (incorporated by reference to Old National's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).\*
- (i) Form of Executive Stock Option Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(h) of Old National's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).\*
- (j) Form of 2006 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).\*
- (k) Form of 2006 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).\*
- (l) Form of 2006 Non-qualified Stock Option Agreement (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).\*
- (m) Form of 2007 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(w) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).\*
- (n) Form of 2007 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(x) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).\*
- (o) Form of 2007 Non-qualified Stock Option Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(y) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).\*
- (p) Lease Agreement, dated December 20, 2006 between ONB One Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(aa) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).
- (q) Lease Agreement, dated December 20, 2006 between ONB 123 Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ab) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).
- (r) Lease Agreement, dated December 20, 2006 between ONB 4<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).
- (s) Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, and Old National Bank (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).

- (t) Lease Supplement No. 1 dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, Old National Bank and ONB Insurance Group, Inc. (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).

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- (u) Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #2, LLC, and Old National Bank (incorporated by reference to Exhibit 99.4 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
- (v) Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #3, LLC, and Old National Bank (incorporated by reference to Exhibit 99.5 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
- (w) Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #4, LLC, and Old National Bank (incorporated by reference to Exhibit 99.6 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
- (x) Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #5, LLC, and Old National Bank (incorporated by reference to Exhibit 99.7 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
- (y) Form of Lease Agreement dated October 19, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2007).
- (z) Form of Lease Agreement dated December 27, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (as incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 31, 2007).
- (aa) Form of 2008 Non-qualified Stock Option Award Agreement (incorporated by reference to Exhibit 99.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).\*
- (ab) Form of 2008 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).\*
- (ac) Form of 2008 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).\*
- (ad) 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).\*
- (ae) 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).
- (af)



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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).

- (ag) 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).\*
  
- (ah) 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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- (ai) 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).\*
- (aj) 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).\*
- (ak) 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).
- (al) 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).
- (am) 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).
- (an) 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).
- (ao) 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).
- (ap) 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).\*
- (aq) 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).\*
- (ar) Form of 2010 Service Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(au) of Old National's Annual Report on Form 10-K for the year ended December 31, 2009).\*
- (as) Voting agreement by and among directors of Monroe Bancorp (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 6, 2010).\*
- (at) Form of Employment Agreement for Robert G. Jones (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 2011).\*

- (au) Form of Employment Agreement for Barbara A. Murphy, Christopher A. Wolking, Allen R. Mounts and Daryl D. Moore (incorporated by reference to Exhibit 10.2 of Old National's Current Report on Form 8-K with the Securities and Exchange Commission on January 27, 2011).\*

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- (av) Form of 2011 Performance Share Award Agreement Internal Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(av) of Old National's Annual Report on Form 10-K for the year ended December 31, 2010).\*
  
- (aw) Form of 2011 Performance Share Award Agreement Relative Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(aw) of Old National's Annual Report on Form 10-K for the year ended December 31, 2010).\*
  
- (ax) Form of 2011 Service Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(ax) of Old National's Annual Report on Form 10-K for the year ended December 31, 2010).\*
  
- (ay) Old National Bank Cash-Settled Value Appreciation Instrument, dated July 29, 2011 (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2011).
  
- (az) Old National Bancorp 2011 Incentive Compensation Plan (incorporated by reference to Exhibit 10.52 of Old National's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011).\*
  
- (ba) Voting agreement by and among directors of Indiana Community Bancorp (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 25, 2012).\*
  
- (bb) Form of Amended Severance/Change of Control Agreement for Jeffrey L. Knight is filed herewith.\*
  
- (bc) Form of 2012 Performance Share Award Agreement Internal Performance Measures between Old National and certain key associates is filed herewith.\*
  
- (bd) Form of 2012 Performance Share Award Agreement Relative Performance Measures between Old National and certain key associates is filed herewith.\*
  
- (be) Form of 2012 Service Based Restricted Stock Award Agreement between Old National and certain key associates is filed herewith.\*
  
- 21 Subsidiaries of Old National Bancorp
  
- 23.1 Consent of Crowe Horwath LLP
  
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

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

101 The following materials from Old National Bancorp's Annual Report on Form 10-K Report for the year ended December 31, 2011, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Changes in Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.\*\*

\* Management contract or compensatory plan or arrangement

\*\* Furnished, not filed

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**SIGNATURES**

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

OLD NATIONAL BANCORP

By: /s/ Robert G. Jones  
Robert G. Jones,

Date: February 27, 2012

President and Chief Executive Officer

(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 27, 2012, by the following persons on behalf of Old National and in the capacities indicated.

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

By: /s/ Alan W. Braun  
Alan W. Braun, Director

By: /s/ Larry E. Dunigan  
Larry E. Dunigan,  
Chairman of the Board of Directors

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

By: /s/ Niel C. Ellerbrook  
Niel C. Ellerbrook, Director

By: /s/ Andrew E. Goebel  
Andrew E. Goebel, Director

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

By: /s/ James T. Morris  
James T. Morris, Director

By: /s/ Robert G. Jones  
Robert G. Jones,  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Marjorie Z. Soyugenc  
Marjorie Z. Soyugenc, Director

By: /s/ Kelly N. Stanley  
Kelly N. Stanley, Director

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

By: /s/ Christopher A. Wolking  
Christopher A. Wolking,  
Senior Executive Vice President  
Financial Officer (Principal Financial Officer)

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