OLD NATIONAL BANCORP /IN/
Form 10-Q
May 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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

For the transition period from to

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of Registrant as specified in its charter)

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

(812) 464-1294

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer x	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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock. The Registrant has one class of common stock (no par value) with 94,674,000 shares outstanding at March 31, 2012.

OLD NATIONAL BANCORP

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OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	March 31, 2012 (unaudited)	December 31, 2011	March 31, 2011 (unaudited)
Assets			
Cash and due from banks	**$ 143,584**	$ 191,626	$ 127,948
Money market and other interest-earning investments	**16,857**	31,246	285,030
Total cash and cash equivalents	**160,441**	222,872	412,978
Trading securities at fair value	**2,972**	2,816	3,861
Investment securities available-for-sale, at fair value			
U.S. Treasury	**65,496**	65,769	62,754
U.S. Government-sponsored entities and agencies	**276,002**	173,185	373,546
Mortgage-backed securities	**1,295,776**	1,268,155	1,101,875
States and political subdivisions	**449,083**	402,844	342,179
Other securities	**165,825**	161,323	170,942
Total investment securities available-for-sale	**2,252,182**	2,071,276	2,051,296
Investment securities held-to-maturity, at amortized cost (fair value $496,356, $507,699 and $599,936 respectively)	**472,377**	484,590	607,272
Federal Home Loan Bank stock, at cost	**30,835**	30,835	34,260
Residential loans held for sale, at fair value	**3,883**	4,528	3,144
Loans:			
Commercial	**1,180,535**	1,216,654	1,274,312
Commercial real estate	**1,026,899**	1,067,370	1,218,415
Residential real estate	**1,059,977**	995,458	779,764
Consumer credit, net of unearned income	**847,274**	861,361	918,265
Covered loans, net of discount	**548,552**	626,360	
Total loans	**4,663,237**	4,767,203	4,190,756
Allowance for loan losses	**(54,726)**	(57,117)	(72,749)
Allowance for loan losses covered loans	**(1,190)**	(943)	
Net loans	**4,607,321**	4,709,143	4,118,007
FDIC indemnification asset	**136,919**	147,566	
Premises and equipment, net	**73,089**	71,870	66,729
Accrued interest receivable	**42,281**	44,801	42,311
Goodwill	**253,177**	253,177	236,309
Other intangible assets	**31,603**	33,624	34,738
Company-owned life insurance	**250,164**	248,693	244,543
Assets held for sale	**16,816**	16,861	
Other real estate owned and repossessed personal property	**6,474**	7,119	14,124
Other real estate owned covered	**24,705**	30,443	
Other assets	**215,819**	229,469	215,738
Total assets	**$ 8,581,058**	$ 8,609,683	$ 8,085,310
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 1,767,972**	$ 1,728,546	$ 1,421,424
Interest-bearing:			
NOW	**1,558,007**	1,569,084	1,448,002

Savings	**1,672,196**	1,570,422	1,192,046
Money market	**295,347**	295,847	353,950
Time	**1,374,255**	1,447,664	1,644,507
Total deposits	**6,667,777**	6,611,563	6,059,929
Short-term borrowings	**352,758**	424,849	374,259
Other borrowings	**289,477**	290,774	439,566
Accrued expenses and other liabilities	**220,635**	248,941	227,541
Total liabilities	**7,530,647**	7,576,127	7,101,295
Shareholders Equity			
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding			
Common stock, $1 stated value, 150,000 shares authorized, 94,674, 94,654 and 94,734 shares issued and outstanding, respectively	**94,674**	94,654	94,734
Capital surplus	**833,976**	834,033	831,990
Retained earnings	**103,034**	89,865	53,821
Accumulated other comprehensive income, net of tax	**18,727**	15,004	3,470
Total shareholders equity	**1,050,411**	1,033,556	984,015
Total liabilities and shareholders equity	**$ 8,581,058**	$ 8,609,683	$ 8,085,310

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars and shares in thousands, except per share data)	Three Months Ended March 31, 2012	2011
Interest Income		
Loans including fees:		
Taxable	**$ 62,130**	$ 50,305
Nontaxable	**2,219**	2,322
Investment securities, available-for-sale:		
Taxable	**11,344**	13,658
Nontaxable	**3,580**	3,521
Investment securities, held-to-maturity, taxable	**4,975**	6,412
Money market and other interest-earning investments	**15**	99
Total interest income	**84,263**	76,317
Interest Expense		
Deposits	**7,682**	10,003
Short-term borrowings	**127**	144
Other borrowings	**2,181**	4,803
Total interest expense	**9,990**	14,950
Net interest income	**74,273**	61,367
Provision for loan losses	**2,056**	3,312
Net interest income after provision for loan losses	**72,217**	58,055
Noninterest Income		
Wealth management fees	**5,096**	5,100
Service charges on deposit accounts	**12,862**	11,550
ATM fees	**6,333**	5,891
Mortgage banking revenue	**559**	952
Insurance premiums and commissions	**9,614**	10,570
Investment product fees	**2,931**	2,594
Company-owned life insurance	**1,495**	1,172
Net securities gains	**619**	1,499
Total other-than-temporary impairment losses	**(96)**	(299)
Loss recognized in other comprehensive income		
Impairment losses recognized in earnings	**(96)**	(299)
Gain on derivatives	**182**	332
Gain on sale leaseback transactions	**1,607**	1,636
Change in FDIC indemnification asset	**4,764**	
Other income	**3,167**	1,824
Total noninterest income	**49,133**	42,821
Noninterest Expense		
Salaries and employee benefits	**46,046**	44,521
Occupancy	**12,460**	12,302
Equipment	**2,856**	2,997
Marketing	**1,442**	1,317

Data processing	**5,469**	6,065
Communication	**2,824**	2,334
Professional fees	**2,724**	2,423
Loan expense	**1,608**	1,087
Supplies	**758**	613
FDIC assessment	**1,395**	2,191
Other real estate owned expense	**9,807**	338
Amortization of intangibles	**2,021**	1,924
Other expense	**1,877**	1,813
Total noninterest expense	**91,287**	79,925
Income before income taxes	**30,063**	20,951
Income tax expense	**8,340**	4,518
Net income	**21,723**	$ 16,433
Net income per common share basic	**$ 0.23**	$ 0.17
Net income per common share diluted	**0.23**	0.17
Weighted average number of common shares outstanding-basic	**94,445**	94,433
Weighted average number of common shares outstanding-diluted	**94,833**	94,670
Dividends per common share	**$ 0.09**	$ 0.07

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(dollars in thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income	**$ 21,723**	$ 16,433
Other comprehensive income		
Change in securities available-for-sale:		
Unrealized holding gains for the period	**6,240**	8,523
Reclassification adjustment for securities gains realized in income	**(619)**	(1,499)
Other-than-temporary-impairment on available-for-sale securities associated with credit loss realized in income	**96**	299
Income tax effect	**(2,316)**	(2,682)
Unrealized gains on available-for-sale securities	3,401	4,641
Change in securities held-to-maturity:		
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	**(230)**	(493)
Income tax effect	**92**	197
Changes from securities held-to-maturity	**(138)**	(296)
Cash flow hedges:		
Net unrealized derivative gains (losses) on cash flow hedges	**(240)**	(318)
Reclassification adjustment on cash flow hedges		72
Income tax effect	**96**	99
Changes from cash flow hedges	**(144)**	(147)
Defined benefit pension plans:		
Amortization of net loss recognized in income	**1,007**	903
Income tax effect	**(403)**	(362)
Changes from defined benefit pension plans	**604**	541
Other comprehensive income, net of tax	**3,723**	4,739
Comprehensive income	**$ 25,446**	$ 21,172

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

(dollars and shares in thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance, December 31, 2010	$ 87,183	$ 748,873	$ 44,018	$ (1,269)	$ 878,805
Comprehensive income					
Net income			16,433		16,433
Other comprehensive income					
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				4,641	4,641
Transferred securities, net of tax				(296)	(296)
Reclassification adjustment on cash flows hedges, net of tax				(147)	(147)
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax				541	541
Acquisition Monroe Bancorp	7,575	82,495			90,070
Dividends common stock			(6,630)		(6,630)
Common stock issued	5	51			56
Common stock repurchased	(32)	(299)			(331)
Stock based compensation expense		777			777
Stock activity under incentive comp plans	3	93			96
Balance, March 31, 2011	$ 94,734	$ 831,990	$ 53,821	$ 3,470	$ 984,015
Balance, December 31, 2011	**$ 94,654**	**$ 834,033**	**$ 89,865**	**$ 15,004**	**$ 1,033,556**
Comprehensive income					
Net income			**21,723**		**21,723**
Other comprehensive income					
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				**3,401**	**3,401**
Transferred securities, net of tax				**(138)**	**(138)**
Reclassification adjustment on cash flows hedges, net of tax				**(144)**	**(144)**
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax				**604**	**604**
Dividends common stock			**(8,510)**		**(8,510)**
Common stock issued	**5**	**55**			**60**
Common stock repurchased	**(55)**	**(631)**			**(686)**
Stock based compensation expense		**499**			**499**
Stock activity under incentive comp plans	**70**	**20**	**(44)**		**46**
Balance, March 31, 2012	**$ 94,674**	**$ 833,976**	**$ 103,034**	**$ 18,727**	**$ 1,050,411**

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Three Months Ended March 31, 2012	2011
Cash Flows From Operating Activities		
Net income	**$ 21,723**	$ 16,433
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**2,295**	2,555
Amortization and impairment of other intangible assets	**2,021**	1,924
Net premium amortization on investment securities	**3,728**	2,006
Accretion of FDIC indemnification asset	**(4,764)**	
Stock compensation expense	**499**	777
Provision for loan losses	**2,056**	3,312
Net securities gains	**(619)**	(1,499)
Impairment on available-for-sale securities	**96**	299
Gain on sale leasebacks	**(1,607)**	(1,636)
Gain on derivatives	**(182)**	(332)
Net gains on sales of loans	**(374)**	(576)
Increase in cash surrender value of company owned life insurance	**(1,471)**	(1,145)
Residential real estate loans originated for sale	**(12,003)**	(21,757)
Proceeds from sale of residential real estate loans	**13,022**	29,336
Decrease in interest receivable	**2,520**	2,563
Decrease in other real estate owned	**6,383**	539
Decrease in other assets	**5,911**	2,212
Increase (decrease) in accrued expenses and other liabilities	**(25,691)**	21,988
Total adjustments	**(8,180)**	40,566
Net cash flows provided by operating activities	**13,543**	56,999
Cash Flows From Investing Activities		
Cash and cash equivalents of acquired banks		83,604
Purchases of investment securities available-for-sale	**(290,983)**	(141,503)
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**100,032**	144,367
Proceeds from sales of investment securities available-for-sale	**13,423**	54,356
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**11,157**	36,108
Proceeds from sale of loans	**782**	4,624
Reimbursements under FDIC loss share agreements	**19,221**	
Net principal collected from (loans made to) customers	**98,983**	(7,780)
Proceeds from sale of premises and equipment and other assets	**3**	168
Purchases of premises and equipment and other assets	**(3,475)**	(712)
Net cash flows provided by (used in) investing activities	**(50,857)**	173,232
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Deposits	**56,214**	(57,057)
Short-term borrowings	**(72,091)**	13,498
Payments for maturities on other borrowings	**(104)**	(98)
Payments related to retirement of debt		(18,333)
Cash dividends paid on common stock	**(8,510)**	(6,630)
Common stock repurchased	**(686)**	(331)
Proceeds from exercise of stock options, including tax benefit		90

Common stock issued	**60**	56
Net cash flows used in financing activities	**(25,117)**	(68,805)
Net increase (decrease) in cash and cash equivalents	**(62,431)**	161,426
Cash and cash equivalents at beginning of period	**222,872**	251,552
Cash and cash equivalents at end of period	**$ 160,441**	$ 412,978
Supplemental cash flow information:		
Total interest paid	**$ 10,608**	$ 12,724
Total taxes paid (net of refunds)	**$ 2,600**	$

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

OLD NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, acquired impaired loans, valuation and impairment of securities, goodwill and intangibles, derivative financial instruments, and income taxes are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of March 31, 2012 and 2011, and December 31, 2011, and the results of its operations for the three months ended March 31, 2012 and 2011. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National s Annual Report for the year ended December 31, 2011.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2012 presentation. Such reclassifications had no effect on net income or shareholders equity.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

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 and did not 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 and did not have a material impact on the consolidated financial statements.

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

NOTE 3 ACQUISITION AND DIVESTITURE 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 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. 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 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:

(dollars in thousands)	
Assets Acquired	
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	16,864
Other intangible assets	4,291
FDIC indemnification asset	167,949
Other assets	9,999
Assets acquired	$ 1,827,350
Liabilities Assumed	
Deposits	$ 1,443,209
Short-term borrowings	7,654
Other borrowings	192,895
FDIC settlement payable	170,759
Other liabilities	12,833
Liabilities assumed	$ 1,827,350

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 20 of the consolidated financial statement footnotes.

Monroe Bancorp

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

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

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 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 20 of these consolidated financial statement footnotes.

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

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

Indiana Community Bancorp

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 third quarter of 2012 subject to approval by federal and state regulatory authorities.

NOTE 4 NET INCOME PER SHARE

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

(dollars and shares in thousands, except per share data)	**Three Months Ended March 31, 2012**	**Three Months Ended March 31, 2011**
Basic Earnings Per Share		
Net income	**$ 21,723**	$ 16,433
Weighted average common shares outstanding	**94,445**	94,433
Basic Earnings Per Share	**$ 0.23**	$ 0.17
Diluted Earnings Per Share		
Net income	**$ 21,723**	$ 16,433
Weighted average common shares outstanding	**94,445**	94,433
Effect of dilutive securities:		
Restricted stock (1)	**369**	208
Stock options (2)	**19**	29
Weighted average shares outstanding	**94,833**	94,670
Diluted Earnings Per Share	**$ 0.23**	$ 0.17

(1) 0 and 88 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share at March 31, 2012 and 2011, respectively, because the effect would be antidilutive.

(2) Options to purchase 3,106 shares and 6,246 shares outstanding at March 31, 2012 and 2011, 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.

NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME

The following tables summarize the changes within each classification of accumulated other comprehensive income (AOCI) net of tax for the three months ended March 31, 2012 and 2011:

(dollars in thousands)	AOCI at December 31, 2011	Other Comprehensive Income	AOCI at March 31, 2012
Unrealized gains on available-for-sale securities	**$ 53,911**	**$ 3,401**	**$ 57,312**
Unrealized losses on securities for which other-than-temporary-impairment has been recognized	**(29,299)**		**(29,299)**
Unrealized gains (losses) on held-to-maturity securities	**4,745**	**(138)**	**4,607**
Unrecognized gain (loss) on cash flow hedges	**145**	**(144)**	**1**
Defined benefit pension plans	**(14,498)**	**604**	**(13,894)**
Accumulated other comprehensive income (loss)	**$ 15,004**	**$ 3,723**	**$ 18,727**

(dollars in thousands)	AOCI at December 31, 2010	Other Comprehensive Income	AOCI at March 31, 2011
Unrealized gains on available-for-sale securities	$ 31,962	$ 4,641	$ 36,603
Unrealized losses on securities for which other-than-temporary-impairment has been recognized	(28,173)		(28,173)
Unrealized gains (losses) on held-to-maturity securities	5,667	(296)	5,371
Unrecognized gain on cash flow hedges	846	(147)	699
Defined benefit pension plans	(11,571)	541	(11,030)
Accumulated other comprehensive income (loss)	$ (1,269)	$ 4,739	$ 3,470

NOTE 6 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at March 31, 2012 and December 31, 2011 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2012				
Available-for-sale				
U.S. Treasury	**$ 65,182**	**$ 314**	**$**	**$ 65,496**
U.S. Government-sponsored entities and agencies	**276,642**	**1,269**	**(1,909)**	**276,002**
Mortgage-backed securities Agency	**1,181,418**	**31,806**	**(113)**	**1,213,111**
Mortgage-backed securities Non-agency	**84,163**	**617**	**(2,115)**	**82,665**
States and political subdivisions	**422,497**	**28,162**	**(1,576)**	**449,083**
Pooled trust preferrred securities	**25,465**		**(17,668)**	**7,797**
Other securities	**150,622**	**9,241**	**(1,835)**	**158,028**
Total available-for-sale securities	**$ 2,205,989**	**$ 71,409**	**$ (25,216)**	**$ 2,252,182**
Held-to-maturity				
U.S. Government-sponsored entities and agencies	**$ 176,366**	**$ 9,848**	**$**	**$ 186,214**
Mortgage-backed securities Agency	**76,925**	**3,031**		**79,956**
States and political subdivisions	**216,089**	**11,163**	**(63)**	**227,189**
Other securities	**2,997**			**2,997**
Total held-to-maturity securities	**$ 472,377**	**$ 24,042**	**$ (63)**	**$ 496,356**
December 31, 2011				
Available-for-sale				
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 preferrred 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
Held-to-maturity				
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

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	March 31, 2012 Amortized Cost	Fair Value	Weighted Average Yield
Available-for-sale			
Within one year	$ 83,163	$ 83,581	1.82%
One to five years	114,548	119,593	3.35
Five to ten years	348,768	360,675	3.34
Beyond ten years	1,659,510	1,688,333	3.36
Total	$ 2,205,989	$ 2,252,182	3.30%
Held-to-maturity			
Within one year	$ 3,049	$ 3,049	2.27%
One to five years	2,350	2,410	3.29
Five to ten years	148,411	154,819	2.95
Beyond ten years	318,567	336,078	4.48
Total	$ 472,377	$ 496,356	3.98%

The following table summarizes the investment securities with unrealized losses at March 31, 2012 and December 31, 2011 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2012						
Available-for-Sale						
U.S. Government-sponsored entities and agencies	**$ 155,753**	**$ (1,909)**	**$**	**$ 0**	**$ 155,753**	**$ (1,909)**
Mortgage-backed securities Agency	**63,492**	**(113)**			**63,492**	**(113)**
Mortgage-backed securities Non-agency	**26,983**	**(1,714)**	**23,867**	**(401)**	**50,850**	**(2,115)**
States and political subdivisions	**41,115**	**(1,541)**	**1,349**	**(35)**	**42,464**	**(1,576)**
Pooled trust preferrred securities			**7,797**	**(17,668)**	**7,797**	**(17,668)**
Other securities	**4,082**	**(32)**	**6,273**	**(1,803)**	**10,355**	**(1,835)**
Total available-for-sale	**$ 291,425**	**$ (5,309)**	**$ 39,286**	**$ (19,907)**	**$ 330,711**	**$ (25,216)**
Held-to-Maturity						
States and political subdivisions	**$ 3,618**	**$ (63)**	**$ 52**	**$**	**$ 3,670**	**$ (63)**
Total held-to-maturity	**$ 3,618**	**$ (63)**	**$ 52**	**$**	**$ 3,670**	**$ (63)**
December 31, 2011						
Available-for-Sale						
U.S. Government-sponsored entities and agencies	$ 24,935	$ (65)	$	$	$ 24,935	$ (65)
Mortgage-backed securities Agency	49,016	(61)	3		49,019	(61)
Mortgage-backed securities Non-agency	10,053	(353)	59,203	(4,520)	69,256	(4,873)
States and political subdivisions	9,281	(114)	1,345	(79)	10,626	(193)
Pooled trust preferrred securities			7,327	(18,134)	7,327	(18,134)
Other securities	4,516	(141)	6,218	(2,125)	10,734	(2,266)
Total available-for-sale	$ 97,801	$ (734)	$ 74,096	$ (24,858)	$ 171,897	$ (25,592)
Held-to-Maturity						
States and political subdivisions	$ 1,613	$ (1)	$ 13,180	$ (175)	$ 14,793	$ (176)
Other securities	22	(2)			22	(2)
Total held-to-maturity	$ 1,635	$ (3)	$ 13,180	$ (175)	$ 14,815	$ (178)

Proceeds from sales and calls of securities available for sale were $33.0 million and $149.2 million for the three months ended March 31, 2012 and 2011, respectively. Gains of $0.5 million and $2.4 million were realized on these sales during 2012 and 2011, respectively, and offsetting losses of $1.0 million were realized on these sales during 2011. Also included in net securities gains for the first quarter of 2012 is $101 thousand of gains associated with the trading securities and other-than-temporary impairment charges related to credit loss on three non-agency mortgage-backed securities in the amount of $96 thousand, described below. Impacting earnings in the first quarter of 2011 was $49 thousand of gains associated with the trading securities and other-than-temporary impairment charges related to credit loss on two non-agency mortgage-backed securities in the amount of $0.3 million.

Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled $3.0 million at March 31, 2012 and $2.8 million at December 31, 2011.

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

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

When other-than-temporary-impairment occurs under either model, the amount of the other-than-temporary-impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary-impairment shall be recognized in earnings equal to the entire difference between the investment s amortized cost basis and its fair value at the balance sheet date. Otherwise, the other-than-temporary-impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary-impairment related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total other-than-temporary-impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary-impairment recognized in earnings shall become the new amortized cost basis of the investment.

As of March 31, 2012, Old National s security portfolio consisted of 1,067 securities, 69 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company s non-agency mortgage-backed and pooled trust preferred securities, as discussed below:

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

At March 31, 2012, the Company s securities portfolio contained 11 non-agency collateralized mortgage obligations with a fair value of $82.7 million which had net unrealized losses of approximately $1.5 million. All of these securities are residential mortgage-backed securities. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of FASB ASC 325-10 (EITF 99-20). As of March 31, 2012, 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 $15.6 million, two of the securities are rated CCC with a fair value of $23.9 million, four of the securities are rated CC with a fair value of $11.5 million, one of the securities is rated C with a fair value of $17.3 million and one of the securities is rated D with a fair value of $3.5 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 $96 thousand of credit losses on three of these securities for the three months ended March 31, 2012. The fair value of these below investment grade non-agency mortgage-backed securities remaining at March 31, 2012 was $71.8 million.

Based on an analysis of the underlying collateral, Old National recorded $0.3 million of credit losses on two non-agency mortgage-backed securities for the three months ended March 31, 2011. The fair value of these non-agency mortgage-backed securities was $61.2 million at March 31, 2011.

Pooled Trust Preferred Securities

At March 31, 2012, the Company s securities portfolio contained eight pooled trust preferred securities with a fair value of $7.8 million and unrealized losses of $17.7 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 $4.4 million with unrealized losses of $6.8 million at March 31, 2012. These securities were rated A2 and A3 at inception, but at March 31, 2012, 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 three months ended March 31, 2012, our model indicated no other-than-temporary-impairment losses on these securities.

Two of our pooled trust preferred securities with a fair value of $3.4 million and unrealized losses of $10.9 million at March 31, 2012 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

For the three months ended March 31, 2011, the seven securities subject to FASB ASC 325-10 accounted for $8.1 million of the unrealized losses in the pooled trust preferred securities category. Our analysis indicated no other-than-temporary-impairment on these securities.

Two of our pooled trust preferred securities with a fair value of $4.2 million and unrealized losses of $10.0 million at March 31, 2011 were not subject to FASB ASC 325-10. These securities were evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

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

As depicted in the table below, all 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

March 31, 2012

(Dollars in Thousands)

	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2012	# of Issuers Currently Performing/ Remaining	Actual Deferrals and Defaults as a Percent of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination as a % of Current Performing Collateral
Pooled trust preferred securities:										
TROPC 2003-1A	A4L	C	$ 87	$ 35	$ (52)	$	15/36	41.7%	23.7%	0.0%
MM Community Funding IX	B-2	D	2,067	906	(1,161)		16/31	41.1%	8.4%	0.0%
Reg Div Funding 2004	B-2	D	4,177	781	(3,396)		25/45	44.9%	6.5%	0.0%
Pretsl XII	B-1	C	2,871	1,586	(1,285)		50/76	28.3%	6.8%	0.0%
Pretsl XV	B-1	C	1,695	1,094	(601)		49/72	36.0%	6.4%	0.0%
Reg Div Funding 2005	B-1	C	311	22	(289)		18/48	55.9%	31.6%	0.0%
Pretsl XXVII LTD	B	CC	4,863	1,229	(3,634)		33/49	28.1%	1.3%	35.8%
Trapeza Ser 13A	A2A	CCC-	9,394	2,144	(7,250)		44/54	28.4%	4.4%	40.7%
			25,465	7,797	(17,668)					
Single Issuer trust preferred securities:										
First Empire Cap (M&T)		BB+	956	991	35					
First Empire Cap (M&T)		BB+	2,906	2,974	68					
Fleet Cap Tr V (BOA)		BB	3,360	2,486	(874)					
JP Morgan Chase Cap XIII		BBB	4,716	3,787	(929)					
			11,938	10,238	(1,700)					
Total			$ 37,403	$ 18,035	$ (19,368)	$				

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

The following table details all securities with other-than-temporary-impairment, their credit rating at March 31, 2012 and the related credit losses recognized in earnings:

	Vintage	Lowest Credit Rating (1)	Amortized Cost	Amount of other-than-temporary-impairment recognized in earnings for the three months ended March 31, 2012
Non-agency mortgage-backed securities:				
BAFC Ser 4	2007	CCC	$ 13,754	$ 76
HALO Ser 1R	2006	B	15,636	4
RFMSI Ser S10	2006	D	3,762	16
			$ 33,152	96
Total other-than-temporary-impairment recognized in earnings				$ 96

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

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

	Vintage	Lowest Credit Rating (1)	Amortized Cost	Amount of other-than-temporary-impairment recognized in earnings for the three months ended March 31, 2011
Non-agency mortgage-backed securities:				
FHASI Ser 4	2007	CC	$ 21,415	$ 202
RFMSI Ser S10	2006	CC	4,263	97
			$ 25,678	299
Total other-than-temporary-impairment recognized in earnings				$ 299

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

The following table details all securities with other-than-temporary-impairment, their credit rating at March 31, 2012, and the related credit losses recognized in earnings:

	Vintage	Lowest Credit Rating (1)	Amortized Cost	Amount of other-than-temporary impairment recognized in earnings: Three Months March 31, 2012	Year ended December 31, 2011	2010	2009	Life-to date
Non-agency mortgage-backed securities:								
BAFC Ser 4	2007	CCC	$ 13,754	$ 76	$	$ 79	$ 63	$ 218
CWALT Ser 73CB	2005	CC	2,963			207	83	290
CWALT Ser 73CB	2005	CC	4,087			427	182	609
CWHL 2006-10 (3)	2006					309	762	1,071
CWHL 2005-20	2005	CC	3,168			39	72	111
FHASI Ser 4	2007	C	17,885		340	629	223	1,192
HALO Ser 1R	2006	B	15,636	4	16			20
RFMSI Ser S9 (2)	2006					923	1,880	2,803
RFMSI Ser S10	2006	D	3,762	16	165	76	249	506
RALI QS2 (2)	2006					278	739	1,017
RFMSI S1	2006	CC	1,896			30	176	206
			63,151	96	521	2,997	4,429	8,043
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	2,871				1,897	1,897
Pretsl XV	2004	C	1,695				3,374	3,374
Reg Div Funding	2005	C	311				3,767	3,767
			11,208		888	930	20,366	22,184
Total other-than-temporary-impairment recognized in earnings				$ 96	$ 1,409	$ 3,927	$ 24,795	$ 30,227

(1) Lowest rating for the security provided by any nationally recognized credit rating agency.
(2) Sold during fourth quarter 2010.
(3) Sold during first quarter 2011.

NOTE 7 LOANS HELD FOR SALE

Residential loans that Old National has committed to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). At March 31, 2012 and December 31, 2011, Old National had residential loans held for sale of $3.9 million and $4.5 million, respectively.

During the first three months of 2012, commercial and commercial real estate loans held for investment of $0.6 million, including $0.5 million of purchased impaired loans, were reclassified to loans held for sale at the lower of cost or fair value and sold for $0.8 million, resulting in a charge-off of $0.1 million and a recovery of $0.3 million. At March 31, 2012, there were no loans held for sale under this arrangement.

During the first three months of 2011, commercial and commercial real estate loans held for investment of $4.6 million were reclassified to loans held for sale at the lower of cost or fair value and sold for $4.6 million, resulting in no charge-off on the loans transferred. At March 31, 2011, there were no loans held for sale under this arrangement.

NOTE 8 FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES

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

The composition of loans by lending classification was as follows:

(dollars in thousands)	**March 31, 2012**	December 31, 2011
Commercial (1)	**$ 1,180,535**	$ 1,216,654
Commercial real estate:		
Construction	**48,321**	46,141
Other	**978,578**	1,021,229
Residential real estate	**1,059,977**	995,458
Consumer credit:		
Heloc	**224,625**	235,603
Auto	**493,087**	483,575
Other	**129,562**	142,183
Covered loans	**548,552**	626,360
Total loans	**4,663,237**	4,767,203
Allowance for loan losses	**(54,726)**	(57,117)
Allowance for loan losses covered loans	**(1,190)**	(943)
Net loans	**$ 4,607,321**	$ 4,709,143

(1) Includes direct finance leases of $73.5 million at March 31, 2012 and $79.6 million at December 31, 2011.

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

<u>Commercial</u>

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.

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 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.

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 three months ended March 31, 2012 and 2011 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2012						
Allowance for loan losses:						
Beginning balance	$ 19,964	$ 26,993	$ 6,954	$ 4,149		$ 58,060
Charge-offs	(1,268)	(3,375)	(2,425)	(560)		(7,628)
Recoveries	1,444	568	1,337	79		3,428
Provision	(2,046)	3,632	(220)	690		2,056
Ending balance	$ 18,094	$ 27,818	$ 5,646	$ 4,358		$ 55,916

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2011						
Allowance for loan losses:						
Beginning balance	$ 26,204	$ 32,654	$ 11,142	$ 2,309		$ 72,309
Charge-offs	(1,331)	(707)	(3,388)	(848)		(6,274)
Recoveries	833	668	1,858	43		3,402
Provision	1,484	(65)	668	1,225		3,312
Ending balance	$ 27,190	$ 32,550	$ 10,280	$ 2,729		$ 72,749

The following tables provide Old National s recorded investment in financing receivables by portfolio segment at March 31, 2012 and December 31, 2011 and other information regarding the allowance:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
March 31, 2012						
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 6,726	$ 5,447	$ 9	$ 5		$ 12,187
Ending balance: collectively evaluated for impairment	$ 10,881	$ 19,661	$ 5,488	$ 4,201		$ 40,231
Ending balance: loans acquired with deteriorated credit quality	$ 132	$ 2,024		$ 152		$ 2,308
Ending balance: covered loans acquired with deteriorated credit quality	$ 355	$ 686	$ 149			$ 1,190
Total allowance for credit losses	$ 18,094	$ 27,818	$ 5,646	$ 4,358		$ 55,916
Loans and leases outstanding:						
Ending balance: individually evaluated for impairment	$ 29,034	$ 45,392				$ 74,426
Ending balance: collectively evaluated for impairment	$ 1,150,459	$ 960,380	$ 923,531	$ 983,720		$ 4,018,090
Ending balance: loans acquired with deteriorated credit quality	$ 1,042	$ 21,127				$ 22,169
Ending balance: covered loans acquired with deteriorated credit quality	$ 95,591	$ 290,102	$ 43,301	$ 119,558		$ 548,552
Total loans and leases outstanding	$ 1,276,126	$ 1,317,001	$ 966,832	$ 1,103,278		$ 4,663,237

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
December 31, 2011						
Allowance for loan losses:						
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
Loans and leases outstanding:						
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

Credit Quality

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

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

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

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

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

As of March 31, 2012 and December 31, 2011, the risk category of loans, excluding covered loans, by class of loans is as follows:

(dollars in thousands) **Corporate Credit Exposure by Internally Assigned Grade**	Commercial March 31, 2012	Commercial December 31, 2011	Commercial Real Estate-Construction March 31, 2012	Commercial Real Estate-Construction December 31, 2011	Commercial Real Estate-Other March 31, 2012	Commercial Real Estate-Other December 31, 2011
Grade:						
Pass	$ 1,079,763	$ 1,103,556	$ 18,270	$ 16,841	$ 863,151	$ 895,543
Criticized	33,501	36,212	13,701	13,605	29,879	30,331
Classified substandard	34,642	41,695	11,482	10,147	22,906	34,478
Classified doubtful	32,629	35,191	4,868	5,548	62,642	60,877
Total	$ 1,180,535	$ 1,216,654	$ 48,321	$ 46,141	$ 978,578	$ 1,021,229

Old National considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, Old National also evaluates credit quality based on the aging status of the loan and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of March 31, 2012 and December 31, 2011, excluding covered loans:

March 31, 2012 (dollars in thousands)	Consumer Heloc	Consumer Auto	Consumer Other	Residential
Performing	$ 223,661	$ 491,426	$ 128,092	$ 1,050,144
Nonperforming	964	1,661	1,470	9,833
	$ 224,625	$ 493,087	$ 129,562	$ 1,059,977

December 31, 2011 (dollars in thousands)	Consumer Heloc	Consumer Auto	Consumer Other	Residential
Performing	$ 234,334	$ 481,632	$ 140,605	$ 985,211
Nonperforming	1,269	1,943	1,578	10,247
	$ 235,603	$ 483,575	$ 142,183	$ 995,458

Impaired Loans

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 three months ended March 31, 2012 and 2011, the average balance of impaired loans was $89.2 million and $64.5 million, respectively, for which no interest income was recorded. No additional funds are committed to be advanced in connection with these impaired loans.

The following table shows Old National s impaired loans, excluding covered loans, that are individually evaluated as of March 31, 2012 and December 31, 2011. 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 $0.7 million migrated to classified-doubtful during the first quarter of 2012. Purchased loans of $24.0 million migrated to classified-doubtful during the year ended December 31, 2011.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
March 31, 2012			
With no related allowance recorded:			
Commercial	$ 8,358	$ 11,195	$
Commercial Real Estate Construction	311	610	
Commercial Real Estate Other	15,157	23,639	
With an allowance recorded:			
Commercial	20,676	23,810	6,738
Commercial Real Estate Construction	2,378	3,449	222
Commercial Real Estate Other	27,546	30,847	6,933
Total Commercial	$ 74,426	$ 93,550	$ 13,893
December 31, 2011			
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
Total Commercial	$ 75,063	$ 94,076	$ 12,608

The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the three months ended March 31, 2012 and 2011 are included in the tables below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
March 31, 2012		
With no related allowance recorded:		
Commercial	$ 8,696	$ 114
Commercial Real Estate Construction	1,551	2
Commercial Real Estate Other	28,130	186
With an allowance recorded:		
Commercial	22,502	274
Commercial Real Estate Construction	1,190	22
Commercial Real Estate Other	27,160	283
Total Commercial	$ 89,229	$ 881

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

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(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
March 31, 2011		
With no related allowance recorded:		
Commercial	$ 6,035	$
Commercial Real Estate Construction		
Commercial Real Estate Other	14,583	
With an allowance recorded:		
Commercial	21,078	89
Commercial Real Estate Construction		
Commercial Real Estate Other	22,798	187
Total Commercial	$ 64,494	$ 276

(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.

Old National s past due financing receivables as of March 31, 2012 and December 31, 2011 are as follows:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Recorded Investment > 90 Days and Accruing	Nonaccrual	Total Past Due	Current
March 31, 2012						
Commercial	$ 1,791	$ 84	$ 40	$ 31,717	$ 33,632	$ 1,146,903
Commercial Real Estate:						
Construction				4,745	4,745	43,576
Other	1,838	404	312	62,622	65,176	913,402
Consumer:						
Heloc	338	140		964	1,442	223,183
Auto	3,957	398	40	1,661	6,056	487,031
Other	1,404	355	44	1,470	3,273	126,289
Residential	7,308	248		9,833	17,389	1,042,588
Covered loans	2,915	443	820	158,523	162,701	385,851
Total loans	$ 19,551	$ 2,072	$ 1,256	$ 271,535	$ 294,414	$ 4,368,823
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 loans	$ 32,070	$ 6,731	$ 3,448	$ 298,208	$ 340,457	$ 4,426,746

Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At March 31, 2012, these loans totaled $183.9 million, of which $100.4 million had been sold to other financial institutions and $83.5 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 three months ended March 31, 2012, 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.

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 March 31, 2012, our troubled debt restructurings consisted of $7.7 million of commercial loans, $7.6 million of commercial real estate loans, $0.1 million of consumer loans and $0.1 million of residential loans. Approximately $14.3 million of the troubled debt restructuring at March 31, 2012 were included with nonaccrual loans. 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 March 31, 2012 and December 31, 2011, Old National has allocated $4.5 million and $1.5 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 March 31, 2012 and December 31, 2011, 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 three months ended March 31, 2012:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	6	$ 1,862	$ 1,862
Commercial Real Estate construction			
Commercial Real Estate other	9	3,298	3,298
Consumer other	4	180	180
Total	19	$ 5,340	$ 5,340

The troubled debt restructurings described above increased the allowance for loan losses by $0.4 million and resulted in charge-offs of $0.3 million during the three months ended March 31, 2012.

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)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
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
Total	73	$ 14,517	$ 12,990

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.

For loans that were modified during the last twelve months, there were no defaults during the three months ended March 31, 2012.

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)	Number of Contracts	Recorded Investment
Troubled Debt Restructuring		
That Subsequently Defaulted:		
Commercial	3	$ 1,647
Commercial Real Estate	6	1,587
Total	9	$ 3,234

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 three months ended March 31, 2012 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.

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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 (ASC 310-30), when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows will result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

Old National has purchased loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. Of these acquired credit impaired loans, $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 was as follows:

(dollars in thousands)	March 31, 2012	December 31, 2011
Commercial	$ 1,115	$ 1,143
Commercial real estate	22,290	23,059
Consumer	34,779	41,064
Residential	366	418
Carrying amount	$ 58,550	$ 65,684
Carrying amount, net of allowance	$ 56,162	$ 63,982
Allowance for loan losses	$ 2,388	$ 1,702

The outstanding balance of noncovered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $104.5 million and $111.4 million as of March 31, 2012 and December 31, 2011, respectively.

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 $2.2 million has been recorded as loan interest income through the three months ended March 31, 2012. Accretion of $15.3 million has been recorded as loan interest income in 2011.

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

(dollars in thousands)	Monroe	Integra Noncovered	Total
Balance at January 1, 2012	$ 15,508	$ 5,871	$ 21,379
New loans purchased			
Accretion of income	(1,574)	(630)	(2,204)
Reclassifications from (to) nonaccretable difference	1,772	(1,395)	377
Disposals/other adjustments	447	1,389	1,836
Balance at March 31, 2012	$ 16,153	$ 5,235	$ 21,388

Included in Old National s allowance for loan losses is $2.4 million related to the purchased loans disclosed above for the first three months of 2012. Included in Old National s allowance for loan losses was $1.7 million related to the purchased loans in 2011. An immaterial amount of allowances for loan losses were reversed during 2012 and 2011 related to these loans.

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

(dollars in thousands)	Monroe Bancorp	Integra Bank
Contractually required payments	$ 94,714	$ 921,856
Nonaccretable difference	(45,157)	(226,426)
Cash flows expected to be collected at acquisition	49,557	695,430
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.

NOTE 9 COVERED LOANS

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements. The carrying amount of covered loans was $548.6 million at March 31, 2012. The composition of covered loans by lending classification was as follows:

	At March 31, 2012		
(dollars in thousands)	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
Commercial	$ 55,392	$ 40,199	$ 95,591
Commercial real estate	268,445	21,657	290,102
Residential	42,702	599	43,301
Consumer	36,315	83,243	119,558
Covered loans	402,854	145,698	548,552
Allowance for loan losses	(1,190)		(1,190)

Covered loans, net	$ 401,664	$ 145,698	$ 547,362

(1) Includes loans with revolving privileges which are scoped out of FASB ASC 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.

The outstanding balance of covered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $688.9 million and $726.8 million as of March 31, 2012 and December 31, 2011, respectively.

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. These prospective yield adjustments are partially offset as Old National will recognize a corresponding decrease in cash flows expected from the indemnification asset prospectively in a similar manner. The indemnification asset is adjusted over the shorter of the life of the underlying investment or the indemnification agreement.

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

(dollars in thousands)	
Balance at January 1, 2012	$ 92,053
New loans purchased	
Accretion of income	(12,704)
Reclassifications from (to) nonaccretable difference	13,024
Disposals/other adjustments	13,078
Balance at March 31, 2012	$ 105,451

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

(dollars in thousands)	
Indemnification Asset	
Balance at January 1, 2012	$ 147,566
Adjustments not reflected in income:	
Established through acquisitions	
Reclass to loss claims receivable	(15,410)
Other	
Adjustments reflected in income:	
(Amortization) accretion	(2,938)
Other adjustments in loss expectations	7,701
Balance at March 31, 2012	$ 136,919

(dollars in thousands)	
Loss Share Receivable	
Balance at January 1, 2012	$ 20,148
Established through acquisitions	
Reclass from indemnification asset	15,410
Cash received from FDIC	(19,221)
Balance at March 31, 2012	$ 16,337

NOTE 10 OTHER REAL ESTATE OWNED

The following table shows the carrying amount for other real estate owned at March 31, 2012 and December 31, 2011:

(dollars in thousands)	Other Real Estate Owned (1)	Other Real Estate Owned, Covered
Balance, December 31, 2011	$ 7,119	$ 30,443
Additions	746	6,682
Sales	(799)	(2,817)
Gains (losses)/Write-downs	(592)	(9,603)
Balance, March 31, 2012	$ 6,474	$ 24,705

(1) Includes $0.4 million of repossessed personal property.

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.

NOTE 11 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill by segment for the three months ended March 31, 2012 and 2011:

(dollars in thousands)	**Community Banking**	**Other**	**Total**
Balance, January 1, 2012	**$ 212,412**	**$ 40,765**	**$ 253,177**
Goodwill acquired during the period			
Balance, March 31, 2012	**$ 212,412**	**$ 40,765**	**$ 253,177**
Balance, January 1, 2011	$ 128,011	$ 39,873	$ 167,884
Goodwill acquired during the period	67,532	893	68,425
Balance, March 31, 2011	$ 195,543	$ 40,766	$ 236,309

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 amount and accumulated amortization of other intangible assets at March 31, 2012 and December 31, 2011 was as follows:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
March 31, 2012			
Amortized intangible assets:			
Core deposit	**$ 39,265**	**$ (22,161)**	**$ 17,104**
Customer business relationships	**25,897**	**(16,754)**	**9,143**
Customer trust relationships	**3,622**	**(606)**	**3,016**
Customer loan relationships	**4,413**	**(2,073)**	**2,340**
Total intangible assets	**$ 73,197**	**$ (41,594)**	**$ 31,603**
December 31, 2011			
Amortized intangible assets:			
Core deposit	$ 39,265	$ (20,815)	$ 18,450
Customer business relationships	25,897		