

OLD NATIONAL BANCORP /IN/

Form 10-K

February 25, 2011

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

**Annual Report Pursuant to Section 13 or 15(d)  
Of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2010  
Commission File Number 1-15817  
OLD NATIONAL BANCORP**

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

Title of Each Class  
**Common Stock, No Par Value  
Preferred Stock Purchase Rights**

Name of each exchange on which registered  
**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:  
None

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (s229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
The aggregate market value of the Registrant's voting common stock held by non-affiliates on June 30, 2010, was \$871,266,571 (based on the closing price on that date of \$10.36). In calculating the market value of securities held by non-affiliates of the Registrant, the Registrant has treated as securities held by affiliates as of June 30, 2010, voting stock owned of record by its directors and principal executive officers, and voting stock held by the Registrant's trust department in a fiduciary capacity for benefit of its directors and principal executive officers. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares outstanding of the Registrant's common stock, as of January 31, 2011, was 94,760,000.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 19, 2011, are incorporated by reference into Part III of this Form 10-K.

---

**OLD NATIONAL BANCORP**  
**2010 ANNUAL REPORT ON FORM 10-K**  
**TABLE OF CONTENTS**

	PAGE
<b><u>PART I</u></b>	
<u>Item 1. Business</u>	4
<u>Item 1A. Risk Factors</u>	11
<u>Item 1B. Unresolved Staff Comments</u>	16
<u>Item 2. Properties</u>	16
<u>Item 3. Legal Proceedings</u>	16
<u>Item 4. (Removed and Reserved)</u>	17
<b><u>PART II</u></b>	
<u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	17
<u>Item 6. Selected Financial Data</u>	19
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	49
<u>Item 8. Financial Statements and Supplementary Data</u>	49
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	110
<u>Item 9A. Controls and Procedures</u>	110
<u>Item 9B. Other Information</u>	110
<b><u>PART III</u></b>	
<u>Item 10. Directors and Executive Officers of the Registrant</u>	111
<u>Item 11. Executive Compensation</u>	111
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	111
<u>Item 13. Certain Relationships and Related Transactions</u>	111

<u>Item 14. Principal Accounting Fees and Services</u>	111
--	-----

PART IV

<u>Item 15. Exhibits and Financial Statement Schedules</u>	112
--	-----

<u>SIGNATURES</u>	118
-------------------	-----

Exhibit 10(av)

Exhibit 10(aw)

Exhibit 10(ax)

Exhibit 21

Exhibit 23.1

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

**Table of Contents**

**OLD NATIONAL BANCORP  
2010 ANNUAL REPORT ON FORM 10-K**

**FORWARD-LOOKING STATEMENTS**

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

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

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

economic conditions generally and in the financial services industry;

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

our ability to achieve loan and deposit growth;

volatility and direction of market interest rates;

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

our ability to execute our business plan;

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

changes in the securities markets; and

changes in fiscal, monetary and tax policies.

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

**Table of Contents**

**PART I**

**ITEM 1. BUSINESS**

**GENERAL**

Old National is a financial holding company incorporated in the State of Indiana and maintains its principal executive office in Evansville, Indiana. We, through our wholly owned banking subsidiary, provide a wide range of services, including commercial and consumer loan and depository services, investment and brokerage services, lease financing and other traditional banking services. Through our non-bank affiliates, we provide services to supplement the banking business including fiduciary and wealth management services, insurance and other financial services. As of December 31, 2010, we employed 2,491 full-time equivalent associates.

**COMPANY PROFILE**

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

**OPERATING SEGMENTS**

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

**Community Banking Segment**

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

As of December 31, 2010, Old National Bank operated 161 banking financial centers located primarily in Indiana, Illinois, and Kentucky. The community banking segment primarily consists of lending and depository activities along with merchant cash management, internet banking and other services relating to the general banking business. In addition, the community banking segment includes Indiana Old National Insurance Company ( IONIC ), which reinsures credit life insurance. IONIC also provides property and casualty insurance for Old National and reinsures most of the coverage with non-affiliated carriers.

*Lending Activities*

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

**Table of Contents**

*Depository Activities*

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

*Investment and Brokerage Services*

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

**Treasury Segment**

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

**Other**

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

*Wealth Management*

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

*Insurance Agency Services*

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

Additional information about our business segments is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 21 to the consolidated financial statements.

**MARKET AREA**

We own the largest Indiana-based bank and one of the largest independent insurance agencies headquartered in Indiana. Operating from a home base in Evansville, Indiana, we have continued to grow our footprint in Indiana and Kentucky with continued expansion in the attractive Louisville, Indianapolis and Lafayette markets. In February 2007, we expanded into Northern Indiana by acquiring St. Joseph Capital Corporation, which had banking offices in Mishawaka and Elkhart, Indiana. In March 2009, we completed the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which consisted of 65 branches and a training facility. The branches are located primarily in the Indianapolis area.

Subsequent to year-end, we closed on our acquisition of Monroe Bancorp, strengthening our presence in Bloomington, Indiana and the central and south central Indiana markets.



**Table of Contents**

The following table reflects the market locations where we have a significant share of the deposit market. The market share data is by metropolitan statistical area. The Evansville, Indiana data includes branches in Henderson, Kentucky.

**Old National Deposit Market Share and Number of Branch Locations**

Deposits as of June 30, 2010

<b>Market Location</b>	<b>Number of Branches</b>	<b>Deposit Market Share Rank</b>
Central City, Kentucky	4	1st
Danville, Illinois	3	1st
Harrisburg, Illinois	1	2nd
Evansville, Indiana	20	2nd
Terre Haute, Indiana	6	2nd
Jasper, Indiana	6	2nd
Carbondale, Illinois	4	2nd
Vincennes, Indiana	4	2nd
Washington, Indiana	3	2nd
Muncie, Indiana	6	3rd

Source: FDIC

**ACQUISITION AND DIVESTITURE STRATEGY**

Since the formation of Old National in 1982, we have acquired more than 40 financial institutions and financial services companies. Future acquisitions and divestitures will be driven by a disciplined financial process and will be consistent with the existing focus on community banking, client relationships and consistent quality earnings.

Targeted geographic markets for acquisitions include mid-size markets within or near our existing franchise with average to above average growth rates.

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

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

**COMPETITION**

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

**SUPERVISION AND REGULATION**

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



**Table of Contents**

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

**The Dodd-Frank Act**

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

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

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

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

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

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

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

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

Require large, publicly traded bank holding companies to create a risk committee responsible for the oversight of enterprise risk management. Old National already has a risk committee which meets this requirement.

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

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

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

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

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

## **Table of Contents**

### **Other Regulatory Agencies and Requirements**

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

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

On July 30, 2002, the Senate and the House of Representatives of the United States ( Congress ) enacted the Sarbanes-Oxley Act of 2002, a law that addresses, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely disclosures of corporate information. In response, the New York Stock Exchange also adopted new corporate governance rules that are intended to allow shareholders to more easily and efficiently monitor the performance of companies and directors.

Effective August 29, 2002, as directed by Section 302(a) of the Sarbanes-Oxley Act, Old National's principal executive officer and principal financial officer are required to certify that Old National's quarterly and annual reports do not contain any untrue statements of a material fact. The rules also require that these officers certify that they are responsible for establishing, maintaining and regularly evaluating the effectiveness of Old National's internal controls; they have made certain disclosures to auditors and the Audit Committee of the Board of Directors about internal controls; and they have included information in Old National's quarterly and annual reports about their evaluation and whether there have been significant changes in Old National's internal controls or in other factors that could significantly affect internal controls subject to the evaluation. Old National filed the Section 302(a) certifications with the SEC and the Listed Company Manual Section 303A.12(a) CEO certification with the New York Stock Exchange for the prior year. Old National's current year's Sarbanes-Oxley Section 302 certification is filed as an exhibit to this Form 10-K.

On October 26, 2001, the USA Patriot Act of 2001 was signed into law. Enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. on September 11, 2001, the Patriot Act is intended to strengthen U.S. law enforcement's and the intelligence community's ability to work cohesively to combat terrorism on a variety of fronts. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and the statute and regulations promulgated under it impose a number of significant obligations on entities subject to its provisions, including: (a) due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons; (b) standards for verifying customer identification at account opening; (c) rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (d) reports by non-financial trades and businesses filed with the U.S. Treasury Department's (the Treasury Department or the Treasury) Financial Crimes Enforcement Network for transactions exceeding \$10,000; and (e) filing of suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws and regulations.

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

Bank holding companies are required to comply with the Federal Reserve's risk-based capital guidelines. The Federal Deposit Insurance Corporation ( FDIC ) and the Office of the Comptroller of the Currency ( OCC ) have adopted risk-based capital ratio guidelines to which depository institutions under their respective supervision are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being

required for the categories perceived as representing greater risk. Old National's banking affiliate, Old National Bank, met all risk-based capital requirements of the FDIC and OCC as of December 31, 2010. For Old National's regulatory capital ratios and regulatory requirements as of December 31, 2010, see Note 19 to the consolidated financial statements.

**Table of Contents**

Old National Bank is subject to the provisions of the National Bank Act, is supervised, regulated and examined by the OCC, and is subject to the rules and regulations of the OCC, Federal Reserve and the FDIC.

A substantial portion of Old National's cash revenue is derived from dividends paid to it by Old National Bank. These dividends are subject to various legal and regulatory restrictions as summarized in Note 19 to the consolidated financial statements.

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

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

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

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

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

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

**Table of Contents**

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

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

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

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

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

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

**AVAILABLE INFORMATION**

All reports filed electronically by Old National with the Securities and Exchange Commission ( SEC ), including the annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements, other information and amendments to those reports filed (if applicable), are accessible at no cost on Old National's web site at [www.oldnational.com](http://www.oldnational.com). The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, and Old National's filings are accessible on the SEC's web site at [www.sec.gov](http://www.sec.gov). The public may read and copy any materials filed by Old National with the SEC at the SEC's Public Reference Room at 100 F Street, N.E, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.





**Table of Contents**

**ITEM 1A. RISK FACTORS**

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

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

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

From December 2007 through June 2009, the U.S. economy was in recession. Business activity across a wide range of industries and regions in the U.S. was greatly reduced. Although economic conditions have begun to improve, certain sectors, such as real estate, remain weak and unemployment remains high. Local governments and many businesses are still in serious difficulty due to lower consumer spending and the lack of liquidity in the credit markets. Market conditions also led to the failure or merger of several prominent financial institutions and numerous regional and community-based financial institutions. These failures, as well as projected future failures, have had a significant negative impact on the capitalization level of the deposit insurance fund of the FDIC, which, in turn, has led to a significant increase in deposit insurance premiums paid by financial institutions.

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

Overall, during 2010 the business environment has been adverse for many households and businesses in the United States and worldwide. While economic conditions in the United States and worldwide have begun to improve, there can be no assurance that this improvement will continue. Such conditions could adversely affect the credit quality of Old National's loans, results of operations and financial condition.

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

*We face risks with respect to future expansion.*

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

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

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

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

**Table of Contents**

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

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

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

entry into new markets where we lack experience;

the introduction of new products and services into our business;

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

the risk of loss of key employees and customers.

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

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

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

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

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

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



**Table of Contents**

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

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

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

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

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

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

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

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

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

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

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

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



**Table of Contents****Fiduciary Activity Risk Factor*****Old National Is Subject To Claims and Litigation Pertaining To Fiduciary Responsibility***

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

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

Old National operates in a highly regulated environment and is subject to extensive regulation, supervision and examination by the Office of Comptroller of the Currency ( OCC ), the Federal Deposit Insurance Corporation ( FDIC ), the Board of Governors of the Federal Reserve System (the Federal Reserve ) and the State of Indiana. Such regulation and supervision of the activities in which an institution may engage is primarily intended for the protection of the depositors and federal deposit insurance funds. In addition, the Treasury has certain supervisory and oversight duties and responsibilities under EESA and the CPP. See Business Supervision and Regulation herein. Applicable laws and regulations may change, and such changes may adversely affect Old National's business. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. In addition, regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including but not limited to the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Any change in such regulation and oversight, whether in the form of restrictions on activities, regulatory policy, regulations, or legislation, including but not limited to changes in the regulations governing institutions, could have a material impact on Old National and its operations.

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

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

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

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

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

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

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

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

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

***Risks Related to Old National's Stock******We may not be able to pay dividends in the future in accordance with past practice.***

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

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

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

announcements of developments related to Old National's business;

fluctuations in Old National's results of operations;

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





**Table of Contents**

general conditions in Old National's banking niche or the worldwide economy;  
a shortfall or excess in revenues or earnings compared to securities analysts' expectations;  
changes in analysts' recommendations or projections; and

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

As of December 31, 2010, Old National and its affiliates operated a total of 161 banking centers, loan production or other financial services offices, primarily in the states of Indiana, Illinois and Kentucky. Of these facilities, 4 were owned.

The executive offices of Old National are located at 1 Main Street, Evansville, Indiana. This building, which houses Old National's general corporate functions, is leased from an unaffiliated third party. The lease term expires December 31, 2031, and provides for the tenant's option to extend the term of the lease for four five-year periods. In addition, we lease 157 financial centers from unaffiliated third parties. The terms of these leases range from five to twenty-four years. See Note 17 to the consolidated financial statements.

**ITEM 3. LEGAL PROCEEDINGS**

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

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

In November 2002, several beneficiaries of certain trusts filed a complaint against Old National and Old National Trust Company in the United States District Court for the Western District of Kentucky relating to the administration of the trusts in 1997. The complaint, as amended, alleged that Old National (through a predecessor), as trustee, mismanaged termination of a lease between the trusts and a tenant mining company. The complaint seeks, among other relief, unspecified damages (costs and expenses, including attorneys' fees, and such other relief as the court might find just and proper). On March 25, 2009, the Court granted summary judgment to Old National concluding that the plaintiffs do not have standing to sue Old National in this matter. The plaintiffs subsequently filed a motion to alter or amend the judgment with the Court. The Plaintiffs motion to alter or amend the judgment was granted by the Court on July 29, 2009, reversing the Court's March 25, 2009 Order as to standing. The July 29, 2009 Order permitted Old National to file a new motion for summary judgment with respect to issues that had not been resolved by the Court. On December 10, 2009, the Court granted Old National partial summary judgment and also granted a motion by Plaintiffs to amend their complaint. The Court's December 10, 2009 Order permitted Old National to file a new motion for summary judgment on the amended complaint. Old National filed its motion for summary judgment on January 22, 2010, which was granted in part and denied in part on



**Table of Contents**

August 6, 2010. The Court has calendared a trial date of February 13, 2012. In addition, the Court has ordered mediation that was rescheduled for March of 2011. Old National continues to believe that it has meritorious defenses to each of the claims in the lawsuit and intends to continue to vigorously defend the lawsuit. There can be no assurance, however, that Old National will be successful, and an adverse resolution of the lawsuit could have a material adverse effect on its consolidated financial position and results of operations in the period in which the lawsuit is resolved. Old National is not presently able to reasonably estimate potential losses, if any, related to the lawsuit and has not recorded a liability in its accompanying Consolidated Balance Sheets.

In November 2010, Old National was named in a class action lawsuit, much like many other banks, challenging Old National Bank's checking account practices. The plaintiff seeks damages and other relief, including restitution. Old National believes it has meritorious defenses to the claims brought by the plaintiff. At this phase of the litigation, it is not possible for management of Old National to determine the probability of a material adverse outcome or reasonably estimate the amount of any loss.

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

Old National's common stock is traded on the New York Stock Exchange ( NYSE ) under the ticker symbol ONB. The following table lists the high and low closing sales prices as reported by the NYSE, share volume and dividend data for 2010 and 2009:

	Price Per Share		Share	Dividend
	High	Low	Volume	Declared
<b>2010</b>				
First Quarter	\$ 12.63	\$ 11.01	40,933,700	\$ 0.07
Second Quarter	13.92	10.36	37,445,200	0.07
Third Quarter	11.05	9.16	36,704,800	0.07
Fourth Quarter	11.94	9.35	37,829,000	0.07
<b>2009</b>				
First Quarter	\$ 18.11	\$ 8.97	52,994,300	\$ 0.23
Second Quarter	15.15	9.82	41,854,300	0.07
Third Quarter	12.66	9.08	46,979,700	0.07
Fourth Quarter	12.58	9.85	57,355,000	0.07

There were 24,233 shareholders of record as of December 31, 2010. Old National declared cash dividends of \$0.28 per share during the year ended December 31, 2010. Old National declared cash dividends of \$0.44 per share during the year ended December 31, 2009. Old National's ability to pay cash dividends depends primarily on cash dividends received from Old National Bank. Dividend payments from Old National Bank are subject to various regulatory restrictions. See Note 19 to the consolidated financial statements for additional information.

Old National repurchased no equity securities during the fourth quarter of 2010. During the twelve months ended December 31, 2010, Old National repurchased a limited number of shares associated with employee share-based incentive programs but did not repurchase any shares on the open market. There were no Board approved repurchase plans or programs for the repurchase of stock as of December 31, 2010, except for those associated with employee share-based incentive programs.

Subsequent to year-end, the Board of Directors approved the repurchase of up to 2.25 million shares of common stock over a twelve month period that runs through January 31, 2012.

**Table of Contents****EQUITY COMPENSATION PLAN INFORMATION**

The following table contains information concerning the 2008 Equity Incentive Plan approved by security holders, as of December 31, 2010.

**2008 EQUITY COMPENSATION PLAN**

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) (c)</b>
Equity compensation plans approved by security holders	6,647,047	\$ 20.37	1,282,523
Equity compensation plans not approved by security holders			
Total	6,647,047	\$ 20.37	1,282,523

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

The comparison of shareholder returns (change in December year end stock price plus reinvested dividends) for each of the periods assumes that \$100 was invested on December 31, 2005, in common stock of each of the Company, the S&P Small Cap 600 Index, the NYSE Financial Index and the SNL Bank and Thrift Index with investment weighted on the basis of market capitalization.

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

(dollars in thousands, except per share data)	2010	2009	2008	2007	2006
<b>Operating Results</b>					
Net interest income	\$ 218,416	\$ 231,399	\$ 243,325	\$ 219,191	\$ 212,717
Conversion to fully taxable equivalent (1)	13,482	20,831	19,326	17,160	19,526
Net interest income tax equivalent basis	231,898	252,230	262,651	236,351	232,243
Provision for loan losses	30,781	63,280	51,464	4,118	7,000
Noninterest income	170,150	163,460	166,969	155,138	153,920
Noninterest expense	314,305	338,956	297,229	277,998	264,690
Net income available to common shareholders	38,214	9,845	62,180	74,890	79,373
<b>Common Share Data (2)</b>					
Weighted average diluted shares	86,928	71,367	65,776	65,750	66,261
Net income (diluted)	\$ 0.44	\$ 0.14	\$ 0.95	\$ 1.14	\$ 1.20
Cash dividends (3)	0.28	0.44	0.69	1.11	0.84
Common dividend payout ratio (4)	63.75	308.59	73.51	97.38	70.02
Book value at year-end	10.08	9.68	9.56	9.86	9.66
Stock price at year-end	11.89	12.43	18.16	14.96	18.92
<b>Balance Sheet Data (at December 31)</b>					
Loans (5)	\$ 3,747,270	\$ 3,908,276	\$ 4,777,514	\$ 4,699,356	\$ 4,716,637
Total assets	7,263,892	8,005,335	7,873,890	7,846,126	8,149,515
Deposits	5,462,925	5,903,488	5,422,287	5,663,383	6,321,494
Other borrowings	421,911	699,059	834,867	656,722	747,545
Shareholders equity	878,805	843,826	730,865	652,881	642,369
<b>Performance Ratios</b>					
Return on average assets (ROA)	0.50%	0.17%	0.82%	0.94%	0.97%
Return on average common shareholders equity (ROE)	4.40	1.41	9.49	11.67	12.43
Average equity to average assets	11.46	9.06	8.67	8.04	7.81
Net interest margin (6)	3.40	3.50	3.82	3.28	3.15
Efficiency ratio (7)	78.18	81.54	69.18	71.01	68.54
<b>Asset Quality (8)</b>					
Net charge-offs to average loans	0.75%	1.40%	0.87%	0.44%	0.38%
Allowance for loan losses to ending loans	1.93	1.81	1.41	1.20	1.44
Allowance for loan losses	\$ 72,309	\$ 69,548	\$ 67,087	\$ 56,463	\$ 67,790
Underperforming assets (9)	77,108	78,666	69,883	45,203	47,024
<b>Other Data</b>					
Full-time equivalent employees	2,491	2,812	2,507	2,494	2,568
Branches and financial centers	161	172	117	115	120

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

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

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

- (4) Cash dividends divided by income available to common stockholders.
- (5) Includes residential loans and finance leases held for sale.
- (6) Defined as net interest income on a tax equivalent basis as a percentage of average earning assets.
- (7) Defined as noninterest expense divided by revenue (net interest income on a tax equivalent basis plus noninterest income).
- (8) Excludes residential loans and finance leases held for sale.
- (9) Includes nonaccrual loans, renegotiated loans, loans 90 days past due still accruing and other real estate owned.

**Table of Contents**

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

The following discussion is an analysis of our results of operations for the fiscal years ended December 31, 2010, 2009 and 2008, and financial condition as of December 31, 2010 and 2009. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business. Readers are cautioned that, by their nature, forward-looking statements are based on estimates and assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from our expectations that are expressed or implied by any forward-looking statement. The discussion in Item 1A, Risk Factors, lists some of the factors that could cause our actual results to vary materially from those expressed or implied by any forward-looking statements, and such discussion is incorporated into this discussion by reference.

In June 2009, the FASB issued Statement No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FASB ASC 105-10, Generally Accepted Accounting Principles). SFAS No. 168 replaces SFAS No. 162 and establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Rules and interpretative releases of the Securities and Exchange Commission under federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB Accounting Standards Codification became effective for financial statements that cover interim and annual periods ending after September 15, 2009. Other than resolving certain minor inconsistencies in current GAAP, the FASB Accounting Standards Codification is not intended to change GAAP, but rather to make it easier to review and research GAAP applicable to a particular transaction or accounting issue. Technical references to generally accepted accounting principles included in this Form 10-K are provided under the new FASB ASC structure with the prior terminology included parenthetically.

**GENERAL OVERVIEW**

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

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

**CORPORATE DEVELOPMENTS IN FISCAL 2010**

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

Overall, during 2010, the business environment has been adverse for many households and businesses in our footprint. While economic conditions in the State of Indiana, and the U.S. in general, have begun to improve, there can be no assurance that this improvement will continue. Such conditions could adversely affect the credit quality of our loans, results of operations and financial condition.

Net income for 2010 was \$38.2 million, an increase of \$24.5 million from 2009. Diluted earnings per share available to common shareholders were \$0.44 per share, an increase of \$0.30 per share from 2009.



**Table of Contents**

Improvement in 2010 net income was primarily due to the following:

The provision for credit losses declined \$32.5 million due to lower net charge-offs; and

Actions taken by management to reduce non-interest expense including an 11.4% reduction in full time equivalent employees ( FTE ) and other cost containment efforts.

Other significant actions taken during 2010 include:

Old National launched two new initiatives designed to increase the speed and simplicity with which certain loan requests can be processed. The process improvements do not represent a willingness to increase risk, but instead, a better coordination of associates and process flow resulting in shared information that reduces decision making time. The result has been to better serve our customers while cutting unnecessary time and cost out of the process.

Old National announced the acquisition of Monroe Bancorp based out of Bloomington, Indiana during the third quarter of 2010. This acquisition will add 15 financial centers and increase our presence in central and south central Indiana.

During 2010, we continued to reduce long-term debt, a more expensive source of funding, as a \$50.0 million senior unsecured note matured and we prepaid \$75.0 million of FHLB advances and \$49.0 million of long-term repurchase agreements. In addition, we redeemed \$100.0 million of 8.0% trust preferred securities on December 15, 2010.

**BUSINESS OUTLOOK**

We believe we will see slow improvement in 2011, but do not anticipate that we will see any improvement in loan demand until unemployment levels improve and there is sustained confidence in the economic recovery.

In addition, it is uncertain how the Dodd-Frank Act and other regulatory measures might impact the Company. We do believe that the Dodd-Frank Act's repeal of the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts beginning July 21, 2011, will impact Old National. Although the ultimate impact of this legislation on the Corporation has not yet been determined, we expect interest costs associated with demand deposits to increase.

Our balance sheet has historically been asset sensitive, meaning that earning assets generally re-price more quickly than interest-bearing liabilities. Therefore, our net interest margin is likely to increase in sustained periods of rising interest rates and decrease in sustained periods of declining interest rates.

Our capital levels remain solid and we believe we are well-positioned to take advantage of any market disruptions in our footprint. Management will continue to focus on the expense base and process improvement. We believe these actions should help Old National emerge from this extended negative credit cycle as a more efficient and profitable core banking franchise.

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

The following table sets forth certain income statement information of Old National for the years ended December 31, 2010, 2009, and 2008:

(dollars in thousands)	2010	2009	2008
<b>Income Statement Summary:</b>			
Net interest income	\$ 218,416	\$ 231,399	\$ 243,325
Provision for loan losses	30,781	63,280	51,464
Noninterest income	170,150	163,460	166,969
Noninterest expense	314,305	338,956	297,229
<b>Other Data:</b>			
Return on average common equity	4.40%	1.41%	9.49%
Efficiency ratio	78.18%	81.54%	69.18%
Tier 1 leverage ratio	9.01%	9.51%	9.50%
Net charge-offs to average loans	0.75%	1.40%	0.87%

**Comparison of Fiscal Years 2010 and 2009****Net Interest Income**

Net interest income is the most significant component of our earnings, comprising over 57% of 2010 revenues. Net interest income and net interest margin in the following discussion are presented on a fully taxable equivalent basis, which adjusts tax-exempt interest income to an amount that would be comparable to interest subject to income taxes. Net income is unaffected by these taxable equivalent adjustments as an offsetting increase of the same amount is made in the income tax section. Net interest income includes taxable equivalent adjustments of \$13.5 million for 2010 and \$20.8 million for 2009.

Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources and interest rate fluctuations. Other factors include prepayment risk on mortgage and investment-related assets and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. In the current market, certain wholesale funding sources cost less than certain client deposits; however, ordinarily funding from client deposits costs less than wholesale funding sources. Factors, such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

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

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

**Table of Contents**

(dollars in thousands)	2010	2009	2008
Net interest income	\$ 218,416	\$ 231,399	\$ 243,325
Conversion to fully taxable equivalent	13,482	20,831	19,326
Net interest income taxable equivalent basis	\$ 231,898	\$ 252,230	\$ 262,651
Average earning assets	6,814,607	7,207,225	6,875,710
Net interest margin	3.21%	3.21%	3.54%
Net interest margin taxable equivalent basis	3.40%	3.50%	3.82%

Net interest income was \$218.4 million in 2010, a 5.6% decrease from the \$231.4 million reported in 2009. Taxable equivalent net interest income was \$231.9 million in 2010, an 8.1% decrease from the \$252.2 million reported in 2009. The net interest margin was 3.40% for 2010, a 10 basis point decrease compared to the 3.50% reported in 2009. The decrease in both net interest income and net interest margin is primarily due to the decrease in earning asset yield being greater than the decrease in the cost of funding, combined with a change in the mix of interest-earning assets and interest-bearing liabilities. Although the cost of interest-bearing liabilities declined by 35 basis points, the decrease was more than offset by the 47 basis decrease in the yield on average assets. The yield on average earning assets decreased from 5.02% to 4.55% while the cost of interest-bearing liabilities decreased from 1.82% to 1.47%. Average earning assets decreased by \$392.6 million, or 5.4%. Average interest-bearing liabilities decreased \$695.9 million, or 11.6%. The decrease in average earning assets consisted of a \$184.9 million increase in lower yielding investment securities, a \$675.6 million decrease in loans and a \$98.1 million increase in money market and other interest-earning investments. The decrease in average interest-bearing liabilities consisted of a \$300.2 million decrease in interest-bearing deposits, a \$198.6 million decrease in short-term borrowings and a \$197.1 million decrease in other borrowings. Noninterest-bearing deposits increased by \$164.2 million.

Significantly affecting average earning assets during 2010 was the increase in the size of the investment portfolio combined with the increase in interest earning cash balances at the Federal Reserve and the reduction in the size of the loan portfolio. During 2010, approximately \$1.362 billion of investment securities were purchased and \$1.318 billion of investment securities were called by the issuers or sold. In addition, commercial and commercial real estate loans continue to be affected by weak loan demand in our markets, more stringent loan underwriting standards and our desire to lower future potential credit risk by being cautious towards the real estate market. The \$413.2 million decline in average commercial loans during 2010 was combined with a \$109.6 million decrease in average commercial real estate loans and a \$148.0 million decrease in average consumer loans. We sold \$3.2 million of commercial and commercial real estate loans during 2010. During the third quarter of 2009, approximately \$258.0 million of leases held for sale were sold. In 2009, we sold \$2.6 million of commercial and commercial real estate loans. The investment portfolio, which generally has an average yield lower than the loan portfolio, was approximately 40 percent of interest earning assets at December 31, 2010.

Positively affecting margin was an increase in noninterest-bearing demand deposits combined with a decrease in time deposits. During 2010, we prepaid \$75.0 million of FHLB advances and \$49.0 million of long-term repurchase agreements. In the second quarter of 2010, a senior unsecured note totaling \$50.0 million matured. In the fourth quarter of 2010, we redeemed \$100.0 million of 8.0% trust preferred securities. During 2009, \$81.0 million of high cost brokered certificates of deposit were called and \$70.0 million of retail certificates of deposit were called. In the fourth quarter of 2009, we prepaid \$105.0 million of FHLB advances. During 2009, a total of \$130.0 million of FHLB advances were prepaid. Year over year, time deposits and brokered certificates of deposit, which have an average interest rate higher than other types of deposits, have decreased as a percent of interest-bearing liabilities. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding.



**Table of Contents**

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

**THREE-YEAR AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS**

(tax equivalent basis, dollars in thousands)	2010			2009			2008		
	Average Balance	Interest & Fees	Yield/ Rate	Average Balance	Interest & Fees	Yield/ Rate	Average Balance	Interest & Fees	Yield/ Rate
<b>Earning Assets</b>									
Money market and other interest-earning investments (7)	\$ 177,786	\$ 431	0.24%	\$ 79,701	\$ 133	0.17%	\$ 21,955	\$ 746	3.40%
Investment securities: (6)									
U.S. Treasury & Government-sponsored agencies (1)	2,150,562	77,208	3.59	1,979,557	89,109	4.50	1,569,779	78,185	4.98
States and political subdivisions (3)	536,295	33,181	6.19	506,709	34,072	6.72	329,386	22,745	6.91
Other securities	198,747	9,307	4.68	214,414	10,570	4.93	251,444	13,927	5.54
Total investment securities	2,885,604	119,696	4.15	2,700,680	133,751	4.95	2,150,609	114,857	5.34
Loans: (2)									
Commercial (3) (4)	1,271,515	56,153	4.42	1,684,693	75,629	4.49	1,779,445	104,617	5.88
Commercial real estate Residential real estate (5)	1,007,636	44,992	4.47	1,117,285	51,652	4.62	1,205,087	74,960	6.22
Consumer, net of unearned income	464,676	26,209	5.64	469,446	26,422	5.63	528,049	30,989	5.87
	1,007,390	62,849	6.24	1,155,420	73,921	6.40	1,190,565	85,679	7.20
Total loans (4) (5)	3,751,217	190,203	5.07	4,426,844	227,624	5.14	4,703,146	296,245	6.30
Total earning assets	6,814,607	\$ 310,330	4.55%	7,207,225	\$ 361,508	5.02%	6,875,710	\$ 411,848	5.99%
Less: Allowance for loan losses	(73,868)			(70,098)			(61,981)		
<b>Non-Earning Assets</b>									
Cash and due from banks	124,565			127,697			155,868		
Other assets	721,142			724,969			648,225		
Total assets	\$ 7,586,446			\$ 7,989,793			\$ 7,617,822		
<b>Interest-Bearing Liabilities</b>									
NOW deposits	\$ 1,221,352	\$ 411	0.03%	\$ 1,250,745	\$ 473	0.04%	\$ 1,249,482	\$ 6,355	0.51%
Savings deposits	1,043,289	3,134	0.30	937,642	3,585	0.38	886,351	12,919	1.46
Money market deposits	361,166	357	0.10	436,507	441	0.10	487,514	5,456	1.12

Edgar Filing: OLD NATIONAL BANCORP /IN/ - Form 10-K

Time deposits	<b>1,753,561</b>	<b>44,706</b>	<b>2.55</b>	2,054,740	63,129	3.07	1,867,103	70,723	3.79
Total interest-bearing deposits	<b>4,379,368</b>	<b>48,608</b>	<b>1.11</b>	4,679,634	67,628	1.45	4,490,450	95,453	2.13
Short-term borrowings	<b>328,535</b>	<b>662</b>	<b>0.20</b>	527,147	1,410	0.27	616,935	10,902	1.77
Other borrowings	<b>615,006</b>	<b>29,162</b>	<b>4.74</b>	812,062	40,240	4.96	810,052	42,842	5.29
Total interest-bearing liabilities	<b>5,322,909</b>	<b>\$ 78,432</b>	<b>1.47%</b>	6,018,843	\$ 109,278	1.82%	5,917,437	\$ 149,197	2.52%
<b>Noninterest-Bearing Liabilities</b>									
Demand deposits	<b>1,182,653</b>			1,018,405			834,981		
Other liabilities	<b>211,651</b>			228,646			205,235		
Shareholders equity	<b>869,233</b>			723,899			660,169		
Total liabilities and shareholders equity	<b>\$ 7,586,446</b>			\$ 7,989,793			\$ 7,617,822		
<b>Interest Margin Recap</b>									
Interest income/average earning assets		<b>\$ 310,330</b>	<b>4.55%</b>		\$ 361,508	5.02%		\$ 411,848	5.99%
Interest expense/average earning assets		<b>78,432</b>	<b>1.15</b>		109,278	1.52		149,197	2.17
Net interest income and margin		<b>\$ 231,898</b>	<b>3.40%</b>		\$ 252,230	3.50%		\$ 262,651	3.82%

- (1) Includes U.S. Government-sponsored entities, agency mortgage-backed securities and \$126.8 million of non-agency mortgage-backed securities at December 31, 2010.
- (2) Includes principal balances of nonaccrual loans. Interest income relating to nonaccrual loans is included only if received.
- (3) Interest on state and political subdivision investment securities and commercial loans includes the effect of taxable equivalent adjustments of \$8.5 million and \$5.0 million, respectively, in 2010; \$11.2 million and \$9.6 million, respectively, in 2009; and \$7.7 million and \$11.6 million, respectively, in 2008; using the federal statutory tax rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations.
- (4) Includes finance leases held for sale.
- (5) Includes residential loans held for sale.
- (6) Changes in fair value are reflected in the average balance; however, yield information does not give effect to changes in fair value that are reflected as a component of shareholders equity.
- (7) The 2010 and 2009 average balances include \$152.3 million and \$41.2 million, respectively, of required and excess balances held at the Federal Reserve.



**Table of Contents**

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

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

	2010 vs. 2009			2009 vs. 2008		
	Total Change	Attributed to Volume	Attributed to Rate	Total Change	Attributed to Volume	Attributed to Rate
<b>Interest Income</b>						
Money market and other interest-earning investments	\$ 298	\$ 200	\$ 98	\$ (613)	\$ 1,030	\$ (1,643)
Investment securities (1)	(14,055)	8,415	(22,470)	18,894	28,310	(9,416)
Loans (1)	(37,421)	(34,499)	(2,922)	(68,621)	(15,806)	(52,815)
Total interest income	(51,178)	(25,884)	(25,294)	(50,340)	13,534	(63,874)
<b>Interest Expense</b>						
NOW deposits	(62)	(11)	(51)	(5,882)	4	(5,886)
Savings deposits	(451)	360	(811)	(9,334)	472	(9,806)
Money market deposits	(84)	(76)	(8)	(5,015)	(311)	(4,704)
Time deposits	(18,423)	(8,466)	(9,957)	(7,594)	6,436	(14,030)
Short-term borrowings	(748)	(466)	(282)	(9,492)	(914)	(8,578)
Other borrowings	(11,078)	(9,432)	(1,646)	(2,602)	103	(2,705)
Total interest expense	(30,846)	(18,091)	(12,755)	(39,919)	5,790	(45,709)
Net interest income	\$ (20,332)	\$ (7,793)	\$ (12,539)	\$ (10,421)	\$ 7,744	\$ (18,165)

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

- (1) Interest on investment securities and loans includes the effect of taxable equivalent adjustments of \$8.5 million and \$5.0 million, respectively, in 2010; \$11.2 million and \$9.6 million, respectively, in 2009; and \$7.7 million and \$11.6 million, respectively, in 2008; using the federal statutory rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations.

**Provision for Loan Losses**

The provision for loan losses was \$30.8 million in 2010, a \$32.5 million decrease from the \$63.3 million recorded in 2009. The lower provision in 2010 is primarily attributable to the decrease in net charge-offs. For additional information about non-performing loans, charge-offs and additional items impacting the provision, refer to the Risk Management Credit Risk section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Noninterest Income**

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products and insurance. This source of revenue has remained relatively constant as a percentage of total revenue at 42.3% in 2010 compared to 39.3% in 2009.

Noninterest income for 2010 was \$170.2 million, an increase of \$6.7 million, or 4.1% compared to \$163.5 million reported for 2009. Net securities gains were \$13.2 million during 2010 compared to \$2.5 million for 2009. Included in 2010 is \$17.1 million of security gains partially offset by \$3.9 million of other-than-temporary-impairment on three pooled trust preferred securities and ten non-agency mortgage-backed securities. Included in 2009 is \$27.3 million of



security gains partially offset by \$24.8 million of other-than-temporary-impairment on six pooled trust preferred securities and ten non-agency mortgage-backed securities. Sales of securities increased during 2009 and continued into 2010 as we adjusted the composition of the investment portfolio to manage the effective duration of the portfolio and reduce the leverage on the balance sheet as proceeds from securities sales were used to reduce wholesale funding. Also affecting noninterest income in 2010 is a \$5.2 million decrease in service charges on deposit accounts, a \$4.0 million decrease in mortgage banking revenue and a \$1.4 million decrease in insurance premiums and commissions. Partially offsetting these decreases were a \$2.5 million increase in ATM and debit card fees, a \$1.7 million increase in revenue from company-owned life insurance and a \$0.8 million increase in gains on derivatives.

**Table of Contents**

Service charges and overdraft fees on deposit accounts decreased by \$5.2 million to \$50.0 million in 2010 as compared to \$55.2 million in 2009. The decrease in revenue is primarily attributable to a decrease in fee income for overdrafts and returned items. Service charges and overdraft fees were negatively impacted by new regulatory requirements in the third quarter of 2010. The negative impact was partially mitigated with adjustments to our product pricing structure late in the third quarter of 2010.

Debit card and ATM fees increased by \$2.5 million to \$23.0 million in 2010 as compared to \$20.5 million in 2009. The increase in debit card usage is primarily attributable to the Citizens Financial branch acquisition and an increase in transaction activity.

Mortgage banking revenue was \$2.2 million in 2010, a decrease of \$4.0 million as compared to \$6.2 million in 2009. Mortgage fee revenue declined as a result of our decision to retain more mortgage production and sell less to the secondary market.

Insurance premiums and commissions decreased \$1.4 million to \$36.5 million in 2010 as compared to \$37.9 million in 2009, primarily as a result of a decrease in contingency income.

Revenue from company-owned life insurance was \$4.1 million in 2010 compared to \$2.4 million in 2009. During the third quarter of 2008, the crediting rate formula for the 1997 company-owned life insurance policy was amended to adopt a more conservative position and improve the overall market to book value ratio. This change resulted in lower revenues from company-owned life insurance in 2009 and while revenues slowly improved in 2010 and should continue to improve in future years, we anticipate revenue will remain below 2008 levels in future years.

Fluctuations in the value of our derivatives resulted in gains on derivatives of \$1.5 million in 2010 as compared to gains on derivatives of \$0.7 million in 2009.

Other income increased \$0.6 million in 2010 as compared to 2009. Included in 2010 is a \$0.9 million decrease in gain on sale of other real estate owned. Included in 2009 is a \$1.4 million loss from the sale of approximately \$258.0 million of leases held for sale, net of transaction fees.

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

**NONINTEREST INCOME**

(dollars in thousands)	2010	2009	2008	% Change From Prior Year	
				2010	2009
Wealth management fees	\$ 16,120	\$ 15,963	\$ 17,361	1.0%	(8.1)%
Service charges on deposit accounts	50,018	55,196	45,175	(9.4)	22.2
ATM fees	22,967	20,472	17,234	12.2	18.8
Mortgage banking revenue	2,230	6,238	5,100	(64.3)	22.3
Insurance premiums and commissions	36,463	37,851	39,153	(3.7)	(3.3)
Investment product fees	9,192	8,515	9,493	8.0	(10.3)
Company-owned life insurance	4,052	2,355	9,181	72.1	(74.3)
Other income	7,967	7,394	11,534	7.7	(35.9)
Total fee and service charge income	149,009	153,984	154,231	(3.2)	(0.2)
Net securities gains	17,124	27,251	7,562	(37.2)	N/M
Impairment on available-for-sale securities	(3,927)	(24,795)		(84.2)	N/M
Gain (loss) on derivatives	1,492	719	(1,144)	107.6	N/M
Gain on sale leasebacks	6,452	6,301	6,320	2.4	(0.3)
Total noninterest income	\$ 170,150	\$ 163,460	\$ 166,969	4.1%	(2.1)%

Noninterest income to total revenue

(1) **42.3%** 39.3% 38.9%

(1) Total revenue includes the effect of a taxable equivalent adjustment of \$13.5 million in 2010, \$20.8 million in 2009 and \$19.3 million in 2008.

N/M = Not meaningful

**Table of Contents**

**Noninterest Expense**

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

Salaries and benefits, the largest component of noninterest expense, totaled \$170.6 million in 2010, compared to \$181.4 million in 2009, a decrease of \$10.8 million, or 5.9%. The decrease in salaries and benefits expense is primarily a result of an 11.4% decline in full time equivalent employees, a \$2.6 million decrease in performance-based incentive compensation expense and a \$3.0 million decrease in profit sharing expense. Partially offsetting these decreases was approximately \$1.7 million of severance expense related to full time equivalent employee reductions. Included in 2010 is a full year of expense associated with the acquisition of the retail branch banking network of Citizens Financial Group, which occurred in the first quarter of 2009.

Marketing expense decreased \$3.9 million in 2010 primarily as a result of decreases in advertising expense, public relations expense and sales promotion expense due to our cost containment efforts.

Professional fees decreased \$1.2 million for 2010 as compared to 2009. The decrease is primarily attributable to legal and management consultant fees associated with the acquisition of the Citizen Financial branch network in the first quarter of 2009 and cost containment efforts.

Supplies expense decreased \$1.4 million, or 31.6%, in 2010 primarily as a result of expense associated with the acquisition of the retail branch banking network of Citizen Financial Group.

The \$2.2 million increase in loss on extinguishment of debt is primarily due to the call of our \$100 million 8% trust preferred security in December 2010.

FDIC assessment expense totaled \$8.4 million in 2010, compared to \$12.4 million for 2009. The decrease is primarily due to the special assessment that the FDIC implemented during the second quarter of 2009, which resulted in approximately \$4.0 million of additional expense. In the fourth quarter of 2009, the FDIC announced that it would require insured institutions to prepay their estimated 2010, 2011 and 2012 assessments in December 2009. As of December 31, 2010, our prepaid assessment was \$23.4 million and will be expensed over the next two years as the actual FDIC assessments are determined.

Other noninterest expense totaled \$13.9 million for 2010 compared to \$18.2 million for 2009, a decrease of \$4.3 million, or 23.8%. The provision for unfunded commitments decreased \$3.7 million for 2010 as compared to 2009. Included in 2009 is approximately \$1.1 million of conversion expenses related to the acquisition of the retail branch banking network of Citizens Financial Group.

**Table of Contents**

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

(dollars in thousands)	2010	2009	2008	% Change From Prior Year	
				2010	2009
Salaries and employee benefits	\$ 170,601	\$ 181,368	\$ 167,764	(5.9)%	8.1%
Occupancy	46,410	47,064	39,668	(1.4)	18.6
Equipment	10,641	10,440	9,464	1.9	10.3
Marketing	5,720	9,578	9,554	(40.3)	0.3
Data processing	21,409	20,700	19,021	3.4	8.8
Communications	9,803	10,922	9,267	(10.2)	17.9
Professional fees	8,253	9,491	7,187	(13.0)	32.0
Loan expense	3,936	4,335	6,619	(9.2)	(34.5)
Supplies	2,935	4,294	3,283	(31.6)	30.8
Loss on extinguishment of debt	6,107	3,941		55.0	N/M
Fraud loss	124	184	6,406	(32.4)	(97.1)
FDIC assessment	8,370	12,447	1,513	(32.8)	N/M
Amortization of intangibles	6,130	5,988	3,659	2.4	63.7
Other expense	13,866	18,204	13,824	(23.8)	31.7
<b>Total noninterest expense</b>	<b>\$ 314,305</b>	<b>\$ 338,956</b>	<b>\$ 297,229</b>	<b>(7.3)%</b>	<b>14.0%</b>

N/M = Not meaningful

**Provision for Income Taxes**

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The effective tax rate varied significantly from 2008 to 2010 due to large fluctuations in pre-tax income while the majority of other items affecting the rate, in particular tax-exempt income, remained relatively stable. The increase in our state tax benefit in 2009 directly correlated to the declines in pre-tax income. See Note 10 to the consolidated financial statements for additional details on Old National's income tax provision.

**Comparison of Fiscal Years 2009 and 2008**

In 2009, we generated net income available to common stockholders of \$9.8 million and diluted net income per share of \$0.14 compared to \$62.2 million and \$0.95, respectively in 2008. The 2009 earnings included an \$11.9 million decrease in net interest income, an \$11.8 million increase in the provision for loan losses, a \$5.1 million decrease in net securities gains and a \$41.7 million increase in noninterest expense. Offsetting these decreases to net income in 2009 was a \$20.2 million decrease in income tax expense.

Taxable equivalent net interest income was \$252.2 million in 2009, a 4.0% decrease from the \$262.7 million reported in 2008. The net interest margin was 3.50% for 2009, a 32 basis point decrease compared to 3.82% reported for 2008. Although average earning assets increased by \$331.5 million during 2009, the yield on average earning assets decreased 97 basis points from 5.99% to 5.02%. Average interest-bearing liabilities increased \$101.4 million and the cost of interest-bearing liabilities decreased from 2.52% to 1.82%.

The provision for loan losses was \$63.3 million in 2009, an \$11.8 million increase from the \$51.5 million recorded in 2008. The higher provision in 2009 was primarily attributable to the increase in net charge-offs. During the fourth quarter of 2009 we recorded a charge-off of \$12.0 million for one non-real estate commercial loan.



**Table of Contents**

Noninterest income for 2009 was \$163.5 million, a decrease of \$3.5 million, or 2.1% from the \$167.0 million reported for 2008. Net securities gains were \$2.5 million during 2009 compared to \$7.6 million for 2008. Included in 2009 is \$27.3 million of security gains partially offset by \$24.8 million of other-than-temporary-impairment on six pooled trust preferred securities and ten non-agency mortgage-backed securities. Sales of securities increased during 2009 as we adjusted the composition of the investment portfolio to reduce the effective duration of the portfolio during the second half of 2009 and reduce our holdings of tax-exempt securities. Also affecting noninterest income in 2009 was a \$10.0 million increase in service charges on deposit accounts, a \$3.3 million increase in ATM and debit card fees and a \$1.9 million increase in gains on derivatives. Partially offsetting these increases were a \$6.8 million decrease in revenue from company-owned life insurance, a \$1.4 million decrease in wealth management fees and a \$1.4 million decrease in other income.

Noninterest expense for 2009 totaled \$339.0 million, an increase of \$41.7 million, or 14.0% from the \$297.2 million recorded in 2008. The increased expenses in 2009 relate primarily to costs associated with the 65 Citizens Financial branches acquired in March 2009, as well as an increase in FDIC insurance expense. Included in 2008 was a \$6.3 million fraud loss expense.

The provision for income taxes on continuing operations was a benefit of \$21.1 million in 2009 compared to a benefit of \$0.9 million in 2008. Old National's effective tax rate was 286.2% in 2009 compared to (1.4)% in 2008. The effective tax rate varied significantly from 2008 to 2009 due to large fluctuations in pre-tax income while the other items affecting the rate, in particular tax-exempt income, remained relatively stable.

**BUSINESS LINE RESULTS**

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

**BUSINESS LINE RESULTS**

(dollars in thousands)	2010	2009	2008
Community banking	\$ 73,108	\$ 48,003	\$ 64,894
Treasury	(26,310)	(50,072)	(2,357)
Other	(3,318)	(5,308)	(936)
Income (loss) before income taxes	\$ 43,480	\$ (7,377)	\$ 61,601

The 2010 community banking segment profit increased \$25.1 million from 2009 levels, primarily as a result of a decrease in provision for loan loss expense and lower FDIC assessment expense. The 2009 community banking segment profit decreased \$16.9 million from 2008, primarily as a result of an increase in provision for loan loss expense, higher FDIC assessment expense and costs associated with our acquisition of the 65 branches from Citizens Financial Group in the first quarter of 2009.

The 2010 treasury segment profit increased \$23.8 million from 2009 primarily as a result of the \$20.9 million decrease in other-than-temporary-impairment in 2010. In 2010, \$3.9 million of other-than-temporary impairment was recorded on three pooled trust preferred securities and ten non-agency mortgage-backed securities. The 2009 treasury segment profit decreased \$47.7 million from 2008 primarily as a result of \$24.8 million of other-than-temporary-impairment on six pooled trust preferred securities and ten non-agency mortgage-backed securities. The treasury segment also absorbed part of the increase in the FDIC assessment expense.

The 2010 other segment profit increased approximately \$2.0 million from 2009 primarily as a result of lower expenses in the insurance agency area. The 2009 other segment profit decreased approximately \$4.4 million from 2008 primarily as a result of lower wealth management revenue and insurance premiums and commissions.

**FINANCIAL CONDITION****Overview**

At December 31, 2010, our total assets were \$7.264 billion, a 9.3% decrease from \$8.005 billion at December 31, 2009. The decrease in investment security balances, interest earning cash balances and loan balances over the past twelve months has allowed us to reduce our reliance on higher cost deposits and wholesale funding. In

September 2009, Old National sold \$258.0 million of finance leases and raised approximately \$195.7 million, net of issuance costs, from a public offering of common stock. Earning assets, comprised of investment securities, portfolio loans, loans and leases held for sale, money market investments and interest earning accounts with the Federal Reserve, were \$6.522 billion at December 31, 2010, a decrease of \$657.9 million, or 9.2%, from \$7.180 billion at December 31, 2009. The decrease in earnings assets is primarily a result of a decline in investment securities, interest earning balances at the Federal Reserve and loans. Year over year, time deposits and brokered certificates of deposit, which have an average interest rate higher than other types of deposits, have decreased as a percent of total funding. Also, other borrowings have decreased as a percent of total funding. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding.



**Table of Contents****Investment Securities**

We classify investment securities primarily as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we also have \$117.0 million of 15- and 20-year fixed-rate mortgage pass-through securities, \$303.3 million of U.S. government-sponsored entity and agency securities and \$217.4 million of state and political subdivision securities in our held-to-maturity investment portfolio at December 31, 2010. During the second quarter of 2010, approximately \$143.8 million of state and political subdivision securities were transferred from the available-for-sale portfolio to our held-to-maturity portfolio at fair value. During the second quarter of 2009, approximately \$230.1 million of U.S. government-sponsored and agency securities were transferred from the available-for-sale portfolio to our held-to-maturity portfolio at fair value.

At December 31, 2010, the investment securities portfolio was \$2.630 billion compared to \$2.918 billion at December 31, 2009, a decrease of 9.9%. Investment securities represented 40.3% of earning assets at December 31, 2010, compared to 40.6% at December 31, 2009. Contributing to the decrease in investment securities was the use of cash flows from calls and maturities of securities to reduce our wholesale funding as part of management's efforts to deleverage the balance sheet. During 2010, approximately \$1.362 billion of investment securities were purchased, \$481.5 million of investment securities were sold and proceeds from maturities, prepayments and calls of investment securities were \$1.201 billion. Stronger commercial loan demand in the future and management's efforts to deleverage the balance sheet could result in a further reduction in the investment securities portfolio. As of December 31, 2010, management does not intend to sell any securities with an unrealized loss position.

The investment securities available-for-sale portfolio had net unrealized gains of \$6.4 million at December 31, 2010, compared to net unrealized losses of \$13.0 million at December 31, 2009. A \$3.9 million charge was recorded during 2010 related to other-than-temporary-impairment on three pooled trust preferred securities and ten non-agency mortgage-backed securities. A \$24.8 million charge was recorded during 2009 related to other-than-temporary-impairment on six pooled trust preferred securities and ten non-agency mortgage-backed securities. See Note 1 to the consolidated financial statements for the impact of other-than-temporary-impairment in other comprehensive income and Note 3 to the consolidated financial statements for details on management's evaluation of securities for other-than-temporary-impairment.

The investment portfolio had an effective duration of 4.23% at December 31, 2010, compared to 4.63% at December 31, 2009. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. The weighted average yields on available-for-sale investment securities were 4.06% in 2010 and 4.52% in 2009. The average yields on the held-to-maturity portfolio were 3.84% in 2010 and 3.78% in 2009.

At December 31, 2010, Old National had a concentration of investment securities issued by the state of Indiana and its political subdivisions with an aggregate market value of \$212.2 million, which represented 24.1% of shareholders' equity. At December 31, 2009, Old National had a concentration of investment securities issued by the state of Indiana and its political subdivisions with an aggregate market value of \$169.6 million, which represented 20.1% of shareholders' equity. There were no other concentrations of investment securities issued by an individual state and its political subdivisions that were greater than 10% of shareholders' equity. In 2011 we plan to continue to allow our holdings of non-taxable municipal bonds to decrease.

**Loan Portfolio**

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

**Table of Contents**

The following table presents the composition of the loan portfolio at December 31.

**LOAN PORTFOLIO AT YEAR-END**

(dollars in thousands)	2010	2009	2008	2007	2006	Four-Year Growth Rate
Commercial	\$ 1,211,399	\$ 1,287,168	\$ 1,897,966	\$ 1,694,736	\$ 1,629,885	(7.1)%
Commercial real estate	942,395	1,062,910	1,154,916	1,270,408	1,386,367	(9.2)
Consumer credit	924,952	1,082,017	1,210,951	1,187,764	1,198,855	(6.3)
Total loans excluding residential real estate	3,078,746	3,432,095	4,263,833	4,152,908	4,215,107	(7.6)
Residential real estate	664,705	403,391	496,526	533,448	484,896	8.2
Total loans	3,743,451	3,835,486	4,760,359	4,686,356	4,700,003	(5.5)%
Less: Allowance for loan losses	72,309	69,548	67,087	56,463	67,790	
Net loans	\$ 3,671,142	\$ 3,765,938	\$ 4,693,272	\$ 4,629,893	\$ 4,632,213	

*Commercial and Commercial Real Estate Loans*

At December 31, 2010, commercial loans decreased \$75.8 million while commercial real estate loans decreased \$120.5 million, respectively, from December 31, 2009. Approximately \$258.0 million of finance leases were sold in the third quarter of 2009. During 2010, we sold \$3.2 million of commercial and commercial real estate loans. No write-down was recorded against the allowance for loan losses related to these sales. We sold \$2.6 million of commercial and commercial real estate loans during 2009. A write-down of \$0.6 million was recorded against the allowance for loan losses related to the sale. Weak loan demand in our markets continues to affect loan growth. Our conservative underwriting standards have also contributed to slower loan growth. We continue to be cautious towards the real estate market in an effort to lower credit risk.

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

**DISTRIBUTION OF COMMERCIAL LOAN MATURITIES AT DECEMBER 31, 2010**

(dollars in thousands)	Within 1 Year	1 - 5 Years	Beyond 5 Years	Total
Interest rates:				
Predetermined	\$ 240,693	\$ 204,672	\$ 103,064	\$ 548,429
Floating	386,259	197,847	78,864	662,970
Total	\$ 626,952	\$ 402,519	\$ 181,928	\$ 1,211,399

*Consumer Loans*

Consumer loans, including automobile loans, personal and home equity loans and lines of credit, and student loans, decreased \$157.1 million or 14.5% at December 31, 2010, compared to December 31, 2009. Payments on existing loans have more than offset new loan production.

*Residential Real Estate Loans*

Residential real estate loans, primarily 1-4 family properties, were \$664.7 million at December 31, 2010, an increase of \$261.3 million or 64.8% from December 31, 2009. The majority of the growth in residential real estate loans came

in the fourth quarter of 2010, primarily as a result of a new mortgage product that was introduced. We usually sell the majority of residential real estate loans originated as a strategy to better manage interest rate risk and liquidity. Typically, we sell almost all residential real estate loans servicing released without recourse. However, the majority of new loan production during 2010 was retained in our loan portfolio.

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

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

At December 31, 2010, the allowance for loan losses was \$72.3 million, an increase of \$2.8 million compared to \$69.5 million at December 31, 2009. As a percentage of total loans, the allowance increased to 1.93% at December 31, 2010, from 1.81% at December 31, 2009. During 2010, the provision for loan losses was \$30.8 million, a decrease of \$32.5 million from the \$63.3 million recorded in 2009. The lower provision in 2010 is primarily attributable to a decrease in net charge-offs. Included in 2009 net charge-offs is a \$3.1 million insurance recovery associated with the misconduct of a former loan officer in the Indianapolis market.

For commercial loans, the reserve decreased by \$0.7 million at December 31, 2010, compared to December 31, 2009. The reserve as a percentage of the commercial loan portfolio increased to 2.16% at December 31, 2010, from 2.09% at December 31, 2009. For commercial real estate loans, the reserve increased by \$5.5 million at December 31, 2010, compared to December 31, 2009. The reserve as a percentage of the commercial real estate loan portfolio increased to 3.47% at December 31, 2010, from 2.55% at December 31, 2009. Nonaccrual loans increased \$3.9 million since December 31, 2009. Criticized and classified loans decreased \$2.2 million from December 31, 2009. During 2010, other classified assets, which consist of investment securities downgraded below investment grade, decreased \$55.6 million.

The reserve for residential real estate loans as a percentage of that portfolio decreased to 0.35% at December 31, 2010, from 0.42% at December 31, 2009. The reserve for consumer loans decreased to 1.20% at December 31, 2010, from 1.28% at December 31, 2009. The lower reserve percentages for these portfolios are a result of improved credit quality in these portfolios during 2010.

*Allowance for Losses on Unfunded Commitments*

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. This allowance is reported as a liability on the balance sheet within accrued expenses and other liabilities, while the corresponding provision for these loan losses is recorded as a component of other expense. As of December 31, 2010 and 2009, the allowance for losses on unfunded commitments was \$3.8 million and \$5.5 million, respectively.

**Residential Loans Held for Sale**

Residential loans held for sale were \$3.8 million at December 31, 2010, compared to \$17.5 million at December 31, 2009. Residential loans held for sale are loans that are closed, but not yet purchased by investors. The amount of residential loans held for sale on the balance sheet varies depending on the amount of originations, timing of loan sales to the secondary market and the percentage of residential loans being retained. The majority of new loan production during 2010 was retained in our loan portfolio, resulting in lower residential loans held for sale at December 31, 2010.

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

**Table of Contents****Finance Leases Held for Sale**

During 2009, \$258.0 million of finance leases were sold at a price above par; however, the sale resulted in a loss of \$1.4 million after transaction fees. At December 31, 2009, Old National had finance leases held for sale of \$55.3 million. During 2010, management decided to transfer leases from held for sale back to the loan portfolio due to decreased levels of loan production. The leases were transferred at the lower of cost or fair value. No losses were recorded in connection with the transfer. There were no finance leases held for sale at December 31, 2010.

**Goodwill and Other Intangible Assets**

Goodwill and other intangible assets at December 31, 2010, totaled \$194.1 million, a decrease of \$6.1 million compared to \$200.2 million at December 31, 2009. During 2009, we recorded \$19.9 million of goodwill and other intangible assets associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which is included in the Community Banking column for segment reporting. We recorded \$0.5 million of impairment of intangibles during the year ended December 31, 2009 due to the loss of an insurance client at one of our insurance subsidiaries. The remaining decreases were the result of standard amortization expense related to the other intangible assets.

**Other Assets**

Other assets have decreased \$29.4 million, or 13.1%, since December 31, 2009 primarily as a result of decreases in our prepaid FDIC assessment and deferred tax assets. In the fourth quarter of 2009, the FDIC announced that it would require insured institutions to prepay their estimated 2010, 2011 and 2012 assessments in December 2009. As of December 31, 2010, our prepaid assessment was \$23.4 million and will be expensed over the next two years as the actual FDIC assessments are determined.

**Funding**

Total average funding, comprised of deposits and wholesale borrowings, was \$6.506 billion at December 31, 2010, a decrease of 7.6% from \$7.037 billion at December 31, 2009. Total deposits were \$5.463 billion, including \$3.988 billion in transaction accounts and \$1.475 billion in time deposits at December 31, 2010. Total deposits decreased 7.5% or \$440.6 million compared to December 31, 2009. Deposits have decreased during 2010 as higher cost certificates of deposit have declined. In 2009, we called \$81.0 million of high cost brokered certificates of deposit and \$70.0 million of retail certificates of deposit. Noninterest-bearing demand deposits increased 7.4% or \$87.7 million compared to December 31, 2009. Savings deposits increased 11.0% or \$107.2 million. NOW deposits decreased 4.2% or \$56.9 million compared to December 31, 2009. Money market deposits decreased 12.1%, or \$46.3 million, while time deposits decreased 26.5% or \$532.3 million compared to December 31, 2009. Year over year, we have experienced an increase in noninterest-bearing demand deposits.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. Wholesale borrowing as a percentage of total funding was 11.6% at December 31, 2010, compared to 14.9% at December 31, 2009. Short-term borrowings have decreased \$32.9 million since December 31, 2009 while long-term borrowings have decreased \$277.1 million compared to December 31, 2009. The public offering of common stock in 2009, funds received in the Citizens Financial branch acquisition and proceeds from our finance lease sale have all contributed to less reliance on wholesale funding. During 2010, we prepaid \$75.0 million of FHLB advances and \$49.0 million of long-term repurchase agreements. In the second quarter of 2010, a senior unsecured note totaling \$50.0 million matured. In the fourth quarter of 2010, we redeemed \$100.0 million of 8.0% trust preferred securities. During 2009, \$130.0 million of FHLB advances were prepaid. See Notes 8 and 9 to the consolidated financial statements for additional details on our financing activities.

**Table of Contents**

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

**FUNDING SOURCES AVERAGE BALANCES**

(dollars in thousands)	2010	2009	2008	% Change From Prior Year	
				2010	2009
Demand deposits	\$ 1,182,653	\$ 1,018,405	\$ 834,981	16.1%	22.0%
NOW deposits	1,221,352	1,250,745	1,249,482	(2.4)	0.1
Savings deposits	1,043,289	937,642	886,351	11.3	5.8
Money market deposits	361,166	436,507	487,514	(17.3)	(10.5)
Time deposits	1,753,561	2,054,740	1,867,103	(14.7)	10.0
Total deposits	5,562,021	5,698,039	5,325,431	(2.4)	7.0
Short-term borrowings	328,535	527,147	616,935	(37.7)	(14.6)
Other borrowings	615,006	812,062	810,052	(24.3)	0.2
Total funding sources	\$ 6,505,562	\$ 7,037,248	\$ 6,752,418	(7.6)%	4.2%

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

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

(dollars in thousands)	Year-End Balance	Maturity Distribution			
		1-90 Days	91-180 Days	181-365 Days	Beyond 1 Year
2010	\$ 466,293	\$ 73,376	\$ 30,591	\$ 121,153	\$ 241,173
2009	653,345	128,171	54,361	168,622	302,191
2008	550,018	117,256	41,825	189,755	201,182

**Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities have decreased \$25.8 million, or 11.3%, since December 31, 2009 primarily as a result of decreases in accrued interest, deferred gain on sale leaseback transactions and accrued pension liabilities.

**Capital**

Shareholders' equity totaled \$878.8 million or 12.1% of total assets at December 31, 2010, and \$843.8 million or 10.5% of total assets at December 31, 2009. These balances include approximately \$195.7 million, net of issuance costs, from a public offering of 20.7 million shares of common stock that occurred late in the third quarter of 2009. In December 2008, we issued \$100 million of Series T Preferred Stock (as defined below) and Warrants (as defined below) to the Treasury Department as part of the Capital Purchase Program ( CPP ) for healthy financial institutions. As part of the CPP, we entered into a Letter Agreement and Securities Purchase Agreement with the Treasury Department on December 12, 2008, pursuant to which Old National sold (i) 100,000 shares of Old National's Fixed Rate Cumulative Perpetual Preferred Stock, Series T (the Series T Preferred Stock ) and (ii) warrants (the Warrants ) to purchase up to 813,008 shares of Old National's common stock at an initial per share exercise price of \$18.45. The Series T Preferred Stock qualified as Tier 1 capital and the Treasury Department was entitled to cumulative dividends at a rate of 5% per year for the first five years, and 9% per year thereafter. The Series T Preferred Stock had priority in the payment of dividends over any cash dividends paid to common stockholders. The adoption of ARRA permitted Old National to redeem the Series T Preferred Stock without penalty and without the need to raise new capital, subject to the Treasury's consultation with Old National's regulatory agency. All of the Series T Preferred Stock sold to the Treasury was repurchased by Old National on March 31, 2009.



**Table of Contents**

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

We paid cash dividends of \$0.28 per share in 2010, which decreased equity by \$24.4 million. We declared cash dividends on common stock of \$0.44 per share in 2009, which decreased equity by \$30.4 million. We also accrued dividends on the preferred shares for the three months ended March 31, 2009, which reduced equity by \$1.2 million. We repurchased shares of our stock, reducing shareholders' equity by \$0.7 million in 2010 and \$0.4 million in 2009. The repurchases related to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by \$16.4 million in 2010 and increased equity by \$33.6 million in 2009. Shares issued for reinvested dividends, stock options, restricted stock and stock compensation plans increased shareholders' equity by \$2.7 million in 2010, compared to \$3.6 million in 2009.

**Capital Adequacy**

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. For additional information on capital adequacy see Note 19 to the consolidated financial statements.

**RISK MANAGEMENT****Overview**

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

**Credit Risk**

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

**Investment Activities**

Within our securities portfolio, the non-agency collateralized mortgage obligations represent the greatest exposure to the current instability in the residential real estate and credit markets. At December 31, 2010, we had non-agency collateralized mortgage obligations with a market value of \$126.8 million, or approximately 6.5% of the available-for-sale securities portfolio. The unrealized loss on these securities at December 31, 2010, was approximately \$7.4 million.

We expect conditions in the overall residential real estate market to remain uncertain for the foreseeable future. Deterioration in the performance of the underlying loan collateral could result in deterioration in the performance of our asset-backed securities. During the fourth quarter of 2010 we sold two non-agency mortgage-backed securities with an amortized cost basis of approximately \$38.4 million that were below investment grade. Eight of these securities were rated below investment grade as of December 31, 2010. During 2010 we experienced \$4.1 million of other-than-temporary-impairment losses on ten of these securities, of which \$3.0 million was recorded as a credit loss in earnings and \$1.1 million is included in other comprehensive income. During 2009 we experienced \$39.4 million of other-than-temporary-impairment on these ten securities, of which \$4.4 million was recorded as a credit loss in earnings and \$35.0 million was included in other comprehensive income.

We also carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and the performance of the underlying collateral. At December 31, 2010, we had pooled trust preferred securities with a fair value of approximately \$8.4 million, or 0.4% of the available-for-sale securities portfolio. During 2010, we experienced \$0.9 million of other-than-temporary-impairment on three of these securities, all of which was recorded as a credit loss in earnings. These securities remained classified as available-for-sale and at December 31, 2010, the unrealized loss on our pooled trust preferred securities was approximately \$19.0 million. During 2009, six of these securities experienced \$28.7 million of other-than-temporary-impairment, of which \$20.4 million was recorded as a credit loss in earnings and \$8.3 million was included in other comprehensive income.





## **Table of Contents**

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

Included in the held-to-maturity category at December 31, 2010 are approximately \$117.0 million of agency mortgage-backed securities and \$217.4 million of municipal securities at amortized cost.

### **Counterparty Exposure**

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation in a financial transaction. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National's net counterparty exposure was an asset of \$297.6 million at December 31, 2010.

### **Lending Activities**

#### **Commercial**

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

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

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

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

**Table of Contents**

**Consumer**

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

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

**Asset Quality**

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

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

**Table of Contents**

Summary of under-performing, criticized and classified assets:

**ASSET QUALITY**

(dollars in thousands)	2010	2009	2008	2007	2006
Nonaccrual loans					
Commercial	\$ 25,488	\$ 24,257	\$ 20,276	\$ 15,654	\$ 11,051
Commercial real estate	30,416	24,854	32,118	14,649	21,256
Residential real estate	8,719	9,621	5,474	5,996	5,686
Consumer	6,322	8,284	6,173	4,517	3,525
Total nonaccrual loans	70,945	67,016	64,041	40,816	41,518
Renegotiated loans not on nonaccrual					52
Past due loans still accruing (90 days or more):					
Commercial	79	1,754	848	491	768
Commercial real estate		72	143	247	459
Residential real estate					127
Consumer	493	1,675	1,917	773	787
Total past due loans	572	3,501	2,908	1,511	2,141
Foreclosed properties	5,591	8,149	2,934	2,876	3,313
Total under-performing assets	\$ 77,108	\$ 78,666	\$ 69,883	\$ 45,203	\$ 47,024
Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans)	\$ 174,341	\$ 157,063	\$ 180,118	\$ 115,121	\$ 153,215
Other classified assets (3)	105,572	161,160	34,543		
Criticized loans	84,017	103,512	124,855	103,210	119,757
Total criticized and classified assets	\$ 363,930	\$ 421,735	\$ 339,516	\$ 218,331	\$ 272,972
Asset Quality Ratios:					
Non-performing loans/total loans (1) (2)	1.90%	1.75%	1.35%	0.87%	0.88%
Under-performing assets/total loans and foreclosed properties (1)	2.06	2.05	1.47	0.96	1.00
Under-performing assets/total assets	1.06	0.98	0.89	0.58	0.58
Allowance for loan losses/under-performing assets	93.78	88.41	96.00	124.91	144.16

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

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

(3) Includes 9 pooled trust preferred securities, 8 non-agency mortgage-backed securities and 1 corporate security at December 31, 2010.

Under-performing assets are closely monitored by our management and consist of: 1) nonaccrual loans, where the ultimate collectibility of interest or principal is uncertain; 2) loans renegotiated in some manner, primarily to provide

for a reduction or deferral of interest or principal payments because the borrower's financial condition deteriorated; 3) loans with principal or interest past due ninety (90) days or more; and 4) foreclosed properties.

Under-performing assets totaled \$77.1 million at December 31, 2010 and \$78.7 million at December 31, 2009. As a percent of total loans and foreclosed properties, under-performing assets at December 31 were 2.06% for 2010 and 2.05% for 2009. The nonaccrual category of under-performing loans was \$70.9 million at December 31, 2010, compared to \$67.0 million at December 31, 2009. At December 31, 2010, the allowance for loan losses to under-performing assets ratio stood at 93.78% compared to 88.41% at December 31, 2009.

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

**Table of Contents**

Loans modified in a troubled debt restructuring are placed on nonaccrual status until the Company determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. All of our troubled debt restructurings were included with nonaccrual loans at December 31, 2010 and consisted of \$3.8 million of commercial loans and \$1.0 million of commercial real estate loans. All of our troubled debt restructurings were included with nonaccrual loans at December 31, 2009 and consisted of \$7.6 million of commercial loans and \$2.4 million of commercial real estate loans.

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

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

Classified loans, including nonaccrual, renegotiated, past due 90 days and other problem loans, were \$174.3 million at December 31, 2010, an increase of \$17.2 million from \$157.1 million at December 31, 2009. Of this total, other problem loans, which are loans reviewed for the borrowers' ability to comply with present repayment terms, totaled \$102.8 million at December 31, 2010, compared to \$86.5 million at December 31, 2009. Other classified assets include \$105.6 million of investment securities that fell below investment grade rating at December 31, 2010.

Criticized loans, or special mention loans, were \$84.0 million at December 31, 2010, a decrease of \$19.5 million from \$103.5 million at December 31, 2009.

Management believes it has taken a prudent approach to the evaluation of under-performing, criticized and classified loans, and the loan portfolio in general both in acknowledging the portfolio's general condition and in establishing the allowance for loan losses.

Loan officers and credit underwriters jointly grade the larger commercial and commercial real estate loans in the portfolio periodically as determined by loan policy requirements or determined by specific guidelines based on loan characteristics as set by management and banking regulation. Periodically, these loan grades are reviewed independently by the loan review department. For impaired loans, an assessment is conducted as to whether there is likely loss in the event of default. If such a loss is determined to be likely, the loss is quantified and a specific reserve is assigned to the loan. For the balance of the commercial and commercial real estate loan portfolio, loan grade migration analysis coupled with historic loss experience within the respective grades is used to develop reserve requirement ranges. These reserve requirement ranges are adjusted for management's best estimate of the effects of current economic conditions, loan quality trends, results from internal and external review examinations, loan volume trends, credit concentrations and various other factors. Historic loss ratios adjusted for expectations of future economic conditions are used in determining the appropriate level of reserves for consumer and residential real estate loans.

**Table of Contents**

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

**ALLOWANCE FOR LOAN LOSSES**

(dollars in thousands)	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Balance, January 1	\$ <b>69,548</b>	\$ 67,087	\$ 56,463	\$ 67,790	\$ 78,847
Loans charged-off:					
Commercial	<b>11,967</b>	36,682	12,402	7,835	11,745
Commercial real estate	<b>10,196</b>	21,886	21,991	5,855	4,738
Residential real estate	<b>2,296</b>	1,315	1,442	1,613	765
Consumer credit	<b>16,848</b>	18,156	15,385	11,635	10,696
Write-downs on loans transferred to held for sale		572		5,337	2,770
<b>Total charge-offs</b>	<b>41,307</b>	78,611	51,220	32,275	30,714
Recoveries on charged-off loans:					
Commercial	<b>5,060</b>	4,865	2,689	4,153	3,018
Commercial real estate	<b>2,041</b>	7,458	2,570	1,774	4,264
Residential real estate	<b>172</b>	135	272	138	61
Consumer credit	<b>6,014</b>	5,334	4,849	5,066	5,314
<b>Total recoveries</b>	<b>13,287</b>	17,792	10,380	11,131	12,657
<b>Net charge-offs</b>	<b>28,020</b>	60,819	40,840	21,144	18,057
Provision charged to expense	<b>30,781</b>	63,280	51,464	4,118	7,000
Allowance of acquired bank				5,699	
<b>Balance, December 31</b>	<b>\$ 72,309</b>	\$ 69,548	\$ 67,087	\$ 56,463	\$ 67,790
<b>Average loans for the year (1)</b>	<b>\$ 3,722,861</b>	\$ 4,330,247	\$ 4,695,950	\$ 4,805,664	\$ 4,804,241
Asset Quality Ratios:					
Allowance/year-end loans (1)	<b>1.93%</b>	1.81%	1.41%	1.20%	1.44%
Allowance/average loans (1)	<b>1.94</b>	1.61	1.43	1.17	1.41
Net charge-offs/average loans (2)	<b>0.75</b>	1.40	0.87	0.44	0.38

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

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

The allowance for loan losses increased \$2.8 million from \$69.5 million at December 31, 2009 to \$72.3 million at December 31, 2010. The primary reasons for the increase in the allowance from December 31, 2009 to December 31, 2010 were an increase of approximately \$1.2 million in general allocation related to credit deterioration in the commercial portfolio combined with an increase in specific loan allocations of approximately \$3.6 million in the commercial portfolio, which more than offset the \$2.0 million reduction for residential loans.

Management believes that it has appropriately identified and reserved for its loan losses at December 31, 2010.

Management will continue its efforts to reduce the level of non-performing loans and may consider the possibility of

additional sales of troubled and non-performing loans, which could result in additional write-downs to the allowance for loan losses.

Interest income of approximately \$4.5 million and \$4.3 million would have been recorded on nonaccrual and renegotiated loans outstanding at December 31, 2010 and 2009, respectively, if such loans had been accruing interest throughout the year in accordance with their original terms. The amount of interest income actually recorded on nonaccrual and renegotiated loans was \$1.8 million and \$1.7 million in 2010 and 2009, respectively. Approximately \$36.6 million of nonaccrual loans were less than thirty days delinquent at December 31, 2010. We had \$4.8 million of renegotiated loans which are included in nonaccrual loans at December 31, 2010 and \$10.0 million of renegotiated loans which were included in nonaccrual loans at December 31, 2009.

Charge-offs, net of recoveries, excluding write-downs on loans transferred to held for sale totaled \$28.0 million in 2010 and \$60.2 million in 2009. Included in 2009 net charge-offs is a \$3.1 million insurance recovery associated with the misconduct of a former loan officer in the Indianapolis market. There were no industry segments representing a significant share of total net charge-offs. Additionally write-downs related to loan sales of \$0.6 million in 2009 were recognized from loans transferred to held for sale. Approximately 25% of net charge-offs have been concentrated in commercial loans, 29% have been in commercial real estate loans and 39% have been in consumer loans. The allowance to average loans, which ranged from 1.17% to 1.94% for the last five years, was 1.94% at December 31, 2010.



**Table of Contents**

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

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

(dollars in thousands)	2010		2009		2008	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
Commercial	\$ 26,204	32.3%	\$ 26,869	33.6%	\$ 29,254	39.9%
Commercial real estate	32,654	25.2	27,138	27.7	22,362	24.2
Residential real estate	2,309	17.8	1,688	10.5	2,067	10.4
Consumer credit	11,142	24.7	13,853	28.2	13,404	25.5
Total	\$ 72,309	100.0%	\$ 69,548	100.0%	\$ 67,087	100.0%

**Market Risk**

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

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

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

**Table of Contents**

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

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

	<b>Down 300</b>	<b>Down 200</b>	<b>Down 100</b>	<b>Up 100</b>	<b>Up 200</b>	<b>Up 300</b>
Green Zone	-12.00%	-6.50%	-3.00%	-3.00%	-6.50%	-12.00%
Yellow Zone	-12.00% to -15.00%	-6.50% to -8.50%	-3.00% to -4.00%	-3.00% to -4.00%	-6.50% to -8.50%	-12.00% to -15.00%
Red Zone	-15.00%	-8.50%	-4.00%	-4.00%	-8.50%	-15.00%
12/31/2010	NA	NA	NA	<b>-0.28%</b>	<b>-0.01%</b>	<b>-1.37%</b>
12/31/2009	NA	NA	NA	1.02%	1.29%	1.25%

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

	<b>Down 300</b>	<b>Down 200</b>	<b>Down 100</b>	<b>Up 100</b>	<b>Up 200</b>	<b>Up 300</b>
Green Zone	-12.00%	-6.50%	-3.00%	-3.00%	-6.50%	-12.00%
Yellow Zone	-12.00% to -15.00%	-6.50% to -8.50%	-3.00% to -4.00%	-3.00% to -4.00%	-6.50% to -8.50%	-12.00% to -15.00%
Red Zone	-15.00%	-8.50%	-4.00%	-4.00%	-8.50%	-15.00%
12/31/2010	NA	NA	NA	<b>0.89%</b>	<b>2.30%</b>	<b>1.42%</b>
12/31/2009	NA	NA	NA	3.60%	3.99%	3.93%

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

	<b>Down 300</b>	<b>Down 200</b>	<b>Down 100</b>	<b>Up 100</b>	<b>Up 200</b>	<b>Up 300</b>
Green Zone	-22.00%	-12.00%	-5.00%	-5.00%	-12.00%	-22.00%
Yellow Zone	-22.00% to -30.00%	-12.00% to -17.00%	-5.00% to -7.50%	-5.00% to -7.50%	-12.00% to -17.00%	-22.00% to -30.00%
Red Zone	-30.00%	-17.00%	-7.50%	-7.50%	-17.00%	-30.00%
12/31/2010	NA	NA	NA	<b>-3.57%</b>	<b>-10.36%</b>	<b>-17.42%</b>
12/31/2009	NA	NA	NA	-3.08%	-8.65%	-13.42%

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

Modeling for the Down 100 Basis Points, Down 200 Basis Points, and Down 300 Basis Points scenarios for both the Net Interest Income at Risk and Economic Value of Equity are not applicable in the current rate environment because the scenarios floor at Zero before absorbing the full 100, 200, and 300 basis point drop, respectively.

At December 31, 2010, modeling indicated Old National was within the green zone policy limit for the 12-month Net Interest Income at Risk values for Up 100, Up 200 and Up 300 scenarios, which is considered normal and acceptable

for Net Interest Income at Risk. Negative results for the 12-month Net Interest Income at Risk indicate that net interest income decreases relative to net interest income modeled using interest rates as of December 31, 2010. Results for the cumulative 24-month Net Interest Income at Risk were positive for Up 100, Up 200 and Up 300 scenarios. This indicates that net interest income increases relative to net interest income modeled using interest rates as of December 31, 2010. Positive increases to Net Interest Income at Risk in our scenarios are not applicable to policy limits.

**Table of Contents**

At December 31, 2010, modeling indicated that Old National was within the green zone policy limit for the Up 100, Up 200, and Up 300 Economic Value of Equity Scenarios, which is considered normal and acceptable for Economic Value of Equity scenarios. Old National's Economic Value of Equity (EVE) scenarios indicated more negative changes to economic value in rising interest rate scenarios at December 31, 2010 compared to December 31, 2009. These changes in EVE modeling results were primarily driven by mix changes within the balance sheet.

Additionally, EVE results were also impacted by a smaller balance sheet, which included a reduction in the size of the investment portfolio and wholesale funding and a change in the mix within the loan portfolio.

In addition to policy-defined scenarios, Old National models other scenarios to measure interest rate risk. For example, the company models a yield curve based on a 24-month forward curve. The forward curve represents the market's expectations of future interest rates. As of December 31, 2010, Old National's 24 month cumulative Net Interest Income at Risk for this scenario resulted in a 2.98% increase in net interest income over an unchanged interest rate curve. In addition, Old National models a ramp scenario where current interest rates are increased 25 basis points each quarter over a 12 month timeframe. As of December 31, 2010, Old National's 24 month cumulative Net Interest Income at Risk for this scenario resulted in a 0.39% decrease in net interest income over an unchanged interest rate curve.

We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. Our derivatives had an estimated fair value gain of \$4.4 million at December 31, 2010, compared to an estimated fair value gain of \$0.4 million at December 31, 2009. In addition, the notional amount of derivatives decreased by \$262.9 million from 2009. See Note 16 to the consolidated financial statements for further discussion of derivative financial instruments.

**Liquidity Risk**

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

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

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

Fitch Rating Service kept their long-term outlook rating as stable (unchanged) during the latest rating review on March 12, 2010

Dominion Bond Rating Services has issued a stable outlook as of August 18, 2010

Moody's Investor Service does not rate Old National Bancorp as of December 20, 2010. The outlook for Old National Bank changed to negative as of October 13, 2008.

**Table of Contents**

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

**SENIOR DEBT RATINGS**

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

N/A = not applicable

As of December 31, 2010, Old National Bank had the capacity to borrow \$712.0 million from the Federal Reserve Bank's discount window. Old National Bank is also a member of the Federal Home Loan Bank (FHLB) of Indianapolis, which provides a source of funding through FHLB advances. Old National Bank maintains relationships in capital markets with brokers and dealers to issue certificates of deposits and short-term and medium-term bank notes as well.

The Parent Company has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. The Parent Company can obtain funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt markets. At December 31, 2010, the Parent Company's other borrowings outstanding decreased to \$8.0 million as compared to \$157.3 million as of December 31, 2009. In the second quarter of 2010, \$50.0 million Parent Company debt matured. Old National's Board of Directors approved the redemption of junior subordinated debentures, resulting in the trustee of ONB Capital Trust II redeeming all \$100.0 million of the 8% trust preferred securities on December 15, 2010.

Old National opted in to the Temporary Account Guarantee Program (TAGP) offered in 2008 as a part of Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program (TLGP). The TAGP program ended Dec 31, 2010. The coverage under the TAGP program has been made permanent and all funds in a noninterest-bearing transaction account are insured in full by the FDIC from January 1, 2011, through December 31, 2012. This unlimited coverage is in addition to, and separate from, the coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules.

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

Old National raised approximately \$195.7 million, net of issuance costs, from a public offering of 20.7 million shares of common stock that occurred late in the third quarter of 2009.

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

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. At December 31, 2006, Old National Bank had received regulatory approval to declare a dividend up to \$76 million in the first quarter of 2007. Old National used the cash obtained from the dividend to fund its purchase of St. Joseph Capital Corporation during the first quarter of 2007.

and during the first quarter of 2009 received a \$40 million dividend to repurchase the \$100 million of non-voting preferred shares from the Treasury. As a result of these special dividends, Old National Bank requires approval of regulatory authority for the payment of dividends to Old National. Such approval was obtained for the payment of dividends during 2010 and currently.

**Table of Contents****OFF-BALANCE SHEET ARRANGEMENTS**

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of our customers. Our banking affiliates have entered into various agreements to extend credit, including loan commitments of \$1.106 billion and standby letters of credit of \$74.3 million at December 31, 2010. At December 31, 2010, approximately \$1.064 billion of the loan commitments had fixed rates and \$42 million had floating rates, with the fixed interest rates ranging from 0% to 13.25%. At December 31, 2009, loan commitments were \$1.038 billion and standby letters of credit were \$103.2 million. The term of these off-balance sheet arrangements is typically one year or less.

During the second quarter of 2007, we entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of \$9.0 million at December 31, 2010.

**CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES**

The following table presents our significant fixed and determinable contractual obligations and significant commitments at December 31, 2010. Further discussion of each obligation or commitment is included in the referenced note to the consolidated financial statements.

**CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES**

(dollars in thousands)	Note Reference	One Year or Less	Payments Due In			Total
			One to Three Years	Three to Five Years	Over Five Years	
Deposits without stated maturity		\$ 3,987,668	\$	\$	\$	\$ 3,987,668
Consumer and brokered certificates of deposit	7	716,453	582,837	88,551	87,416	1,475,257
Short-term borrowings	8	298,232				298,232
Other borrowings	9	150,046	76,606	109,323	85,936	421,911
Fixed interest payments (a)		17,101	16,756	10,219	27,495	71,571
Operating leases	17	34,527	63,823	58,733	296,045	453,128
Other long-term liabilities (b)		800				800

(a) Our subordinated bank notes and certain Federal Home Loan Bank advances have fixed rates ranging from 1.24% to 8.34%. All of our other long-term debt is at Libor based variable rates at December 31, 2010. The projected variable interest assumes no increase in Libor rates from December 31, 2010.

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

We rent certain premises and equipment under operating leases. See Note 17 to the consolidated financial statements for additional information on long-term lease arrangements.

We are party to various derivative contracts as a means to manage the balance sheet and our related exposure to changes in interest rates, to manage our residential real estate loan origination and sale activity, and to provide derivative contracts to our clients. Since the derivative liabilities recorded on the balance sheet change frequently and do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 16 to the consolidated financial statements.

In the normal course of business, various legal actions and proceedings are pending against us and our affiliates which are incidental to the business in which they are engaged. Further discussion of contingent liabilities is included in Note 17 to the consolidated financial statements.

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



**Table of Contents**

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

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

**Goodwill and Intangibles**

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

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

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

**Allowance for Loan Losses**

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

The allowance is increased through a provision charged to operating expense. Uncollectible loans are charged-off through the allowance. Recoveries of loans previously charged-off are added to the allowance. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. Our policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status. A loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate



**Table of Contents**

collectibility of principal or interest. We monitor the quality of our loan portfolio on an on-going basis and use a combination of detailed credit assessments by relationship managers and credit officers, historic loss trends, and economic and business environment factors in determining the allowance for loan losses. We record provisions for loan losses based on current loans outstanding, grade changes, mix of loans and expected losses. A detailed loan loss evaluation on an individual loan basis for our highest risk loans is performed quarterly. Management follows the progress of the economy and how it might affect our borrowers in both the near and the intermediate term. We have a formalized and disciplined independent loan review program to evaluate loan administration, credit quality and compliance with corporate loan standards. This program includes periodic reviews and regular reviews of problem loan reports, delinquencies and charge-offs.

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

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

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

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

Management's analysis of probable losses in the portfolio at December 31, 2010, resulted in a range for allowance for loan losses of \$8.5 million. The range pertains to general (FASB ASC 310, Receivables/SFAS 5) reserves for both retail and performing commercial loans. Specific (FASB ASC 310, Receivables/SFAS 114) reserves do not have a range of probable loss. Due to the risks and uncertainty associated with the economy, our projection of FAS 5 loss rates inherent in the portfolio, and our selection of representative historical periods, we establish a range of probable outcomes (a high-end estimate and a low-end estimate) and evaluate our position within this range. The potential effect to net income based on our position in the range relative to the high and low endpoints is a decrease of \$2.4 million and an increase of \$3.1 million, respectively, after taking into account the tax effects. These sensitivities are hypothetical and are not intended to represent actual results.

**Derivative Financial Instruments**

**Description.** As part of our overall interest rate risk management, we use derivative instruments to reduce exposure to changes in interest rates and market prices for financial instruments. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items. To the extent hedging relationships are found to be effective, as determined by FASB ASC

815 (SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*), changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. Management believes hedge effectiveness is evaluated properly in preparation of the financial statements. All of the derivative financial instruments we use have an active market and indications of fair value can be readily obtained. We are not using the short-cut method of accounting for any fair value derivatives.

**Table of Contents**

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

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

**Income Taxes**

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

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

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

**Valuation of Securities**

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

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



## **Table of Contents**

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

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

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

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

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

When applicable for purchased beneficial interests, the estimated cash flows of the securities are assessed for adverse changes.

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

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

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

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

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

The information contained under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations Market Risk on page 41 of this Form 10-K is incorporated herein by reference in response to this item.

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

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

Management is responsible for the preparation of the financial statements and related financial information appearing in this annual report on Form 10-K. The financial statements and notes have been prepared in conformity with accounting principles generally accepted in the United States of America and include some amounts which are

estimates based upon currently available information and management's judgment of current conditions and circumstances. Financial information throughout this annual report on Form 10-K is consistent with that in the financial statements.



**Table of Contents**

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

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

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

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

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

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

Old National's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on that assessment Old National has concluded that, as of December 31, 2010, the company's internal control over financial reporting is effective. Old National's independent registered public accounting firm has audited the effectiveness of the company's internal control over financial reporting as of December 31, 2010 as stated in their report which follows.

**Table of Contents**

**Crowe Horwath LLP**

Independent Member Crowe Horwath  
International

Board of Directors and Shareholders

Old National Bancorp

Evansville, Indiana

We have audited the accompanying consolidated balance sheets of Old National Bancorp as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. We also have audited Old National Bancorp's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Old National Bancorp's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the company's internal control over financial reporting based on our audits.

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

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

**Table of Contents**

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Old National Bancorp as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Old National Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

Crowe Horwath LLP  
Indianapolis, Indiana  
February 24, 2011

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

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
(dollars and shares in thousands, except per share data)		
<b>Assets</b>		
Cash and due from banks	\$ 107,368	\$ 144,156
Money market and other interest-earning investments	144,184	353,120
Total cash and cash equivalents	251,552	497,276
Securities available-for-sale, at fair value	1,960,222	2,486,219
Securities held-to-maturity, at amortized cost (fair value \$625,643 and \$399,953 respectively)	638,210	396,009
Federal Home Loan Bank stock, at cost	31,937	36,090
Residential loans held for sale, at fair value	3,819	17,530
Finance leases held for sale		55,260
Loans, net of unearned income	3,743,451	3,835,486
Allowance for loan losses	(72,309)	(69,548)
Net loans	3,671,142	3,765,938
Premises and equipment, net	48,775	52,399
Accrued interest receivable	42,971	49,340
Goodwill	167,884	167,884
Other intangible assets	26,178	32,307
Company-owned life insurance	226,192	224,652
Other assets	195,010	224,431
Total assets	\$ 7,263,892	\$ 8,005,335
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing demand	\$ 1,276,024	\$ 1,188,343
Interest-bearing:		
NOW	1,297,443	1,354,337
Savings	1,079,376	972,176
Money market	334,825	381,078
Time	1,475,257	2,007,554
Total deposits	5,462,925	5,903,488
Short-term borrowings	298,232	331,144
Other borrowings	421,911	699,059
Accrued expenses and other liabilities	202,019	227,818
Total liabilities	6,385,087	7,161,509
Commitments and contingencies (Note 17)		

**Shareholders' Equity**

Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding		
Common stock, \$1 per share stated value, 150,000 shares authorized, 87,183 and 87,182 shares issued and outstanding, respectively	<b>87,183</b>	87,182
Capital surplus	<b>748,873</b>	746,775
Retained earnings	<b>44,018</b>	30,235
Accumulated other comprehensive loss, net of tax	<b>(1,269)</b>	(20,366)
Total shareholders' equity	<b>878,805</b>	843,826
Total liabilities and shareholders' equity	<b>\$ 7,263,892</b>	\$ 8,005,335

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

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

(dollars and shares in thousands, except per share data)	Years Ended December 31,		
	2010	2009	2008
<b>Interest Income</b>			
Loans including fees:			
Taxable	\$ 175,607	\$ 198,940	\$ 261,455
Nontaxable	9,631	19,053	23,155
Investment securities, available-for-sale:			
Taxable	71,057	90,087	87,066
Nontaxable	16,294	22,532	14,913
Investment securities, held-to-maturity, taxable	23,828	9,932	5,187
Money market and other interest-earning investments	431	133	746
<b>Total interest income</b>	<b>296,848</b>	<b>340,677</b>	<b>392,522</b>
<b>Interest Expense</b>			
Deposits	48,608	67,628	95,453
Short-term borrowings	662	1,410	10,902
Other borrowings	29,162	40,240	42,842
<b>Total interest expense</b>	<b>78,432</b>	<b>109,278</b>	<b>149,197</b>
Net interest income	218,416	231,399	243,325
Provision for loan losses	30,781	63,280	51,464
Net interest income after provision for loan losses	187,635	168,119	191,861
<b>Noninterest Income</b>			
Wealth management fees	16,120	15,963	17,361
Service charges on deposit accounts	50,018	55,196	45,175
ATM fees	22,967	20,472	17,234
Mortgage banking revenue	2,230	6,238	5,100
Insurance premiums and commissions	36,463	37,851	39,153
Investment product fees	9,192	8,515	9,493
Company-owned life insurance	4,052	2,355	9,181
Net securities gains	17,124	27,251	7,562
Total other-than-temporary impairment losses	(5,060)	(68,090)	
Loss recognized in other comprehensive income	1,133	43,295	
Impairment losses recognized in earnings	(3,927)	(24,795)	
Gain (loss) on derivatives	1,492	719	(1,144)
Gain on sale leaseback transactions	6,452	6,301	6,320
Other income	7,967	7,394	11,534
<b>Total noninterest income</b>	<b>170,150</b>	<b>163,460</b>	<b>166,969</b>
<b>Noninterest Expense</b>			

Edgar Filing: OLD NATIONAL BANCORP /IN/ - Form 10-K

Salaries and employee benefits	<b>170,601</b>	181,368	167,764
Occupancy	<b>46,410</b>	47,064	39,668
Equipment	<b>10,641</b>	10,440	9,464
Marketing	<b>5,720</b>	9,578	9,554
Data processing	<b>21,409</b>	20,700	19,021
Communication	<b>9,803</b>	10,922	9,267
Professional fees	<b>8,253</b>	9,491	7,187
Loan expense	<b>3,936</b>	4,335	6,619
Supplies	<b>2,935</b>	4,294	3,283
Loss on extinguishment of debt	<b>6,107</b>	3,941	
Fraud loss	<b>124</b>	184	6,406
FDIC assessment	<b>8,370</b>	12,447	1,513
Amortization of intangibles	<b>6,130</b>	5,988	3,659
Other expense	<b>13,866</b>	18,204	13,824
<b>Total noninterest expense</b>	<b>314,305</b>	338,956	297,229
Income (loss) before income taxes	<b>43,480</b>	(7,377)	61,601
Income tax expense (benefit)	<b>5,266</b>	(21,114)	(877)
Net income	<b>38,214</b>	13,737	62,478
Preferred stock dividends and discount accretion		(3,892)	(298)
Net income available to common stockholders	<b>\$ 38,214</b>	\$ 9,845	\$ 62,180
Net income per common share:			
Basic earnings per share	<b>\$ 0.44</b>	\$ 0.14	\$ 0.95
Diluted earnings per share	<b>0.44</b>	0.14	0.95
Weighted average number of common shares outstanding			
Basic	<b>86,785</b>	71,314	65,660
Diluted	<b>86,928</b>	71,367	65,776
Dividends per common share	<b>0.28</b>	0.44	0.69

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

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

	<b>Preferred</b>	<b>Common</b>	<b>Capital</b>	<b>Retained</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Shareholders' Total Equity</b>	<b>Comprehensive Income</b>
(dollars and shares in thousands)	<b>Stock</b>	<b>Stock</b>	<b>Surplus</b>	<b>Earnings</b>	<b>(Loss)</b>	<b>Equity</b>	<b>Income</b>
<b>Balance, January 1, 2008</b>	\$	\$ 66,205	\$ 563,675	\$ 34,346	\$ (11,345)	\$ 652,881	
Comprehensive income							
Net income				62,478		62,478	\$ 62,478
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					(36,800)	(36,800)	(36,800)
Reclassification adjustment on cash flow hedges, net of tax					175	175	175
Net loss, settlement cost and amort of net (gain) loss on defined benefit pension plans, net of tax					(5,534)	(5,534)	(5,534)
Total comprehensive income							\$ 20,319
Dividends - common stock				(45,710)		(45,710)	
Dividends - preferred stock				(273)		(273)	
Issuance of preferred stock	97,358			(26)		97,332	
Issuance of warrants to purchase common shares			2,553			2,553	
Common stock repurchased		(26)	(431)			(457)	
Stock based compensation expense			2,005			2,005	
Stock activity under incentive comp plans		142	2,073			2,215	
<b>Balance, December 31, 2008</b>	97,358	66,321	569,875	50,815	(53,504)	730,865	
Comprehensive income							
Net income				13,737		13,737	\$ 13,737
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					32,792	32,792	32,792
Transferred securities, net of tax					812	812	812
Reclassification adjustment on cash flow hedges, net of tax					667	667	667
Net loss, settlement cost and amort of net (gain) loss on					(1,133)	(1,133)	(1,133)



defined benefit pension plans, net  
of tax

Total comprehensive income \$ 46,875

Dividends common stock			(30,380)		(30,380)
Dividends preferred stock			(1,250)		(1,250)
Common stock issued	20,900	176,856			197,756
Preferred stock repurchased	(97,358)		(2,642)		(100,000)
Common stock repurchased	(28)	(325)			(353)
Warrants repurchased		(1,200)			(1,200)
Stock based compensation expense		1,310			1,310
Stock activity under incentive comp plans	(11)	259	(45)		203

**Balance, December 31, 2009** **87,182** **746,775** **30,235** **(20,366)** **843,826**

Comprehensive income

Net income **38,214** **38,214** \$ **38,214**

Other comprehensive income (1)

Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax **11,501** **11,501** **11,501**

Transferred securities, net of tax **4,855** **4,855** **4,855**

Reclassification adjustment on cash flow hedges, net of tax **659** **659** **659**

Net loss, settlement cost and amort of net (gain) loss on defined benefit pension plans, net of tax **2,082** **2,082** **2,082**

Total comprehensive income \$ **57,311**

Dividends common stock **(24,361)** **(24,361)**

Common stock issued **19** **178** **197**

Common stock repurchased **(41)** **(664)** **(705)**

Stock based compensation expense **2,369** **2,369**

Stock activity under incentive comp plans **23** **215** **(70)** **168**

**Balance, December 31, 2010** \$ **\$ 87,183** **\$ 748,873** **\$ 44,018** **\$ (1,269)** **\$ 878,805**

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

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



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

(dollars in thousands)	Years Ended December 31,		
	2010	2009	2008
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 38,214	\$ 13,737	\$ 62,478
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	8,990	8,853	5,952
Amortization and impairment of other intangible assets	6,129	6,508	4,350
Net premium (discount) amortization on investment securities	7,590	2,188	(1,875)
Restricted stock expense	2,116	918	1,598
Stock option expense	253	392	407
Provision for loan losses	30,781	63,280	51,464
Net securities gains	(17,124)	(27,251)	(7,562)
Impairment on available-for-sale securities	3,927	24,795	
Gain on sale leasebacks	(6,452)	(6,301)	(6,320)
(Gain) loss on derivatives	(1,492)	(719)	1,144
Net gains on sales and write-downs of loans and other assets	(1,410)	(1,141)	(3,054)
(Gain) loss on retirement of debt	6,107	3,941	(558)
Increase in cash surrender value of company-owned life insurance	(1,540)	(1,526)	(8,640)
Residential real estate loans originated for sale	(57,523)	(259,664)	(171,871)
Proceeds from sale of residential real estate loans	72,773	262,784	170,577
(Increase) decrease in interest receivable	6,369	(278)	1,247
(Increase) decrease in other assets	16,797	(44,008)	(65,003)
Increase (decrease) in accrued expenses and other liabilities	(17,995)	(6,212)	20,185
Total adjustments	58,296	26,559	(7,959)
Net cash flows provided by operating activities	96,510	40,296	54,519
<b>Cash Flows From Investing Activities</b>			
Cash and cash equivalents of acquired banking branches, net		389,917	
Purchases of investment securities available-for-sale	(1,106,040)	(2,274,090)	(1,068,304)
Purchases of investment securities held-to-maturity	(255,828)	(98,544)	
Purchase of loans	(7,660)	(8,024)	
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	1,046,431	697,082	754,669
Proceeds from sales of investment securities available-for-sale	481,471	1,042,138	280,971
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	150,837	29,230	26,464
Proceeds from redemption of FHLB stock	4,153	5,000	
Proceeds from sale of loans and leases	3,627	259,127	2,251
Net principal collected from (loans made to) customers	123,308	562,452	(117,039)
Proceeds from sale of premises and equipment and other assets	32	405	10,892
Proceeds from sale leaseback of real estate	3,697	10,836	8,528
Purchases of premises and equipment	(7,460)	(13,944)	(11,722)

Net cash flows provided by (used in) investing activities	<b>436,568</b>	601,585	(113,290)
<b>Cash Flows From Financing Activities</b>			
Net increase (decrease) in deposits and short-term borrowings:			
Noninterest-bearing demand deposits	<b>87,681</b>	220,070	33,130
Savings, NOW and money market deposits	<b>4,053</b>	(61,390)	(158,851)
Time deposits	<b>(532,297)</b>	(103,011)	(113,904)
Short-term borrowings	<b>(32,912)</b>	(318,479)	11,376
Payments for maturities on other borrowings	<b>(75,821)</b>	(5,264)	(154,207)
Proceeds from issuance of other borrowings	<b>75,000</b>		330,000
Payments related to retirement of debt	<b>(279,649)</b>	(133,949)	
Cash dividends paid on common stock	<b>(24,361)</b>	(30,380)	(60,801)
Cash dividends paid on preferred stock		(1,514)	
Common stock repurchased	<b>(705)</b>	(353)	(457)
Proceeds from exercise of stock options, including tax benefit	<b>12</b>	97	1,940
Proceeds from issuance of TARP preferred stock and warrants			99,885
Repurchase of TARP preferred stock and warrants		(101,200)	
Common stock issued	<b>197</b>	197,756	
Net cash flows used in financing activities	<b>(778,802)</b>	(337,617)	(11,889)
Net increase (decrease) in cash and cash equivalents	<b>(245,724)</b>	304,264	(70,660)
Cash and cash equivalents at beginning of period	<b>497,276</b>	193,012	263,672
<b>Cash and cash equivalents at end of period</b>	<b>\$ 251,552</b>	\$ 497,276	\$ 193,012

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

**Table of Contents**

**OLD NATIONAL BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
NATURE OF OPERATIONS**

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

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

**BASIS OF PRESENTATION**

The accompanying consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates ( Old National ) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, valuation and impairment of securities, goodwill and intangibles, derivative financial instruments, and income taxes are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of December 31, 2010 and 2009, and the results of its operations and cash flows for the years ended December 31, 2010, 2009 and 2008.

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

**INVESTMENT SECURITIES**

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

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

**Table of Contents**

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

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

**RESIDENTIAL LOANS HELD FOR SALE**

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

**LOANS**

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

**ALLOWANCE FOR LOAN LOSSES**

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

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

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.

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

**PREMISES AND EQUIPMENT**

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

**Table of Contents**

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

**GOODWILL AND OTHER INTANGIBLE ASSETS**

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

Old National recorded \$0.5 million and \$0.7 million of impairment of intangibles during the years ended December 31, 2009 and 2008, respectively, due to the loss of two unrelated insurance clients at one of its insurance subsidiaries. Such impairments are included in other expense.

**COMPANY OWNED LIFE INSURANCE**

Old National has purchased life insurance policies on certain key executives. The Company adopted FASB ASC 325-30, Investments in Insurance Contracts (EITF 06-05, *Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4*) on January 1, 2007, and in accordance with this pronouncement records company owned life insurance at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The amount of company owned life insurance at December 31, 2010 and 2009 was \$226.2 million and \$224.7 million, respectively.

**DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

**Table of Contents**

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

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

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

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

**CREDIT-RELATED FINANCIAL INSTRUMENTS**

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

**FORECLOSED ASSETS**

Other assets include real estate properties acquired as a result of foreclosure and repossessed personal property and are initially recorded at the fair value of the property less estimated cost to sell. Any excess recorded investment over the fair value of the property received is charged to the allowance for loan losses. Any subsequent write-downs are charged to expense, as are the costs of operating the properties. Such costs are not material to Old National's results of operation. The amount of foreclosed assets at December 31, 2010 and 2009 was \$5.6 million and \$8.1 million, respectively.

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

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





**Table of Contents****COMPREHENSIVE INCOME**

Comprehensive income includes all changes in equity during a period, except those resulting from investments by and distributions to owners. Following is a summary of other comprehensive income for the years ended December 31, 2010, 2009 and 2008.

(dollars in thousands)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net income	\$ <b>38,214</b>	\$ 13,737	\$ 62,478
Other comprehensive income			
Change in securities available for sale:			
Unrealized holding gains (losses) arising during the period	<b>43,078</b>	99,164	(50,328)
Reclassification for securities transferred to held-to-maturity	<b>(9,371)</b>	(1,791)	
Reclassification adjustment for securities (gains) losses realized in income	<b>(17,124)</b>	(27,251)	(7,562)
Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income	<b>(1,133)</b>	(43,295)	
Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income	<b>3,927</b>	24,795	
Income tax effect	<b>(7,876)</b>	(18,830)	21,090
Change in securities held-to-maturity:			
Fair value adjustment for securities transferred from available-for-sale	<b>9,371</b>	1,791	
Amortization of fair value previously recognized into accumulated other comprehensive income	<b>(1,284)</b>	(438)	
Income tax effect	<b>(3,232)</b>	(541)	
Cash flow hedges:			
Net unrealized derivative gains (losses) on cash flow hedges	<b>807</b>	821	
Reclassification adjustment on cash flow hedges	<b>288</b>	288	288
Income tax effect	<b>(436)</b>	(442)	(113)
Defined benefit pension plans:			
Net loss, settlement cost and amortization of net (gain) loss recognized in income	<b>3,469</b>	(1,889)	(9,223)
Income tax effect	<b>(1,387)</b>	756	3,689
Total other comprehensive income (loss)	<b>19,097</b>	33,138	(42,159)
Comprehensive income	\$ <b>57,311</b>	\$ 46,875	\$ 20,319

The following table summarizes the changes within each classification of accumulated other comprehensive income ( AOCI ) for the years ended December 31, 2010 and 2009:

	AOCI at December 31, 2008	Other Comprehensive Income	AOCI at December 31, 2009	Other Comprehensive Income	AOCI at December 31, 2010
Unrealized gains (losses) on available-for-sale securities	\$ (40,504)	\$ 60,293	\$ 19,789	\$ 12,173	\$ 31,962
Unrealized losses on securities for which other-than-temporary-impairment has		(27,501)	(27,501)	(672)	(28,173)

been recognized								
Unrealized gains (losses) on held-to-maturity securities		812	812	4,855	5,667			
Unrecognized gain (loss) on cash flow hedges	(480)	667	187	659	846			
Defined benefit pension plans	(12,520)	(1,133)	(13,653)	2,082	(11,571)			
Accumulated other comprehensive income (loss)	\$ (53,504)	\$ 33,138	\$ (20,366)	\$ 19,097	\$ (1,269)			

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

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

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

**EARNINGS PER SHARE RECONCILIATION**

(dollars and shares in thousands,  
except per share data)

	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Basic Earnings Per Share</b>			
Net income	\$ 38,214	\$ 13,737	\$ 62,478
Less: Preferred stock dividends and accretion of discount		3,892	298
Net income available to common stockholders	<b>38,214</b>	9,845	62,180
Weighted average common shares outstanding	<b>86,785</b>	71,314	65,660
<b>Basic Earnings Per Share</b>	<b>\$ 0.44</b>	\$ 0.14	\$ 0.95
<b>Diluted Earnings Per Share</b>			
Net income available to common stockholders	\$ 38,214	\$ 9,845	\$ 62,180
Weighted average common shares outstanding	<b>86,785</b>	71,314	65,660
Effect of dilutive securities:			
Restricted stock (1)	<b>132</b>	44	82
Stock options (2)	<b>11</b>	9	34
Weighted average shares outstanding	<b>86,928</b>	71,367	65,776
<b>Diluted Earnings Per Share</b>	<b>\$ 0.44</b>	\$ 0.14	\$ 0.95

(1) 56, 231 and 0 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share at December 31, 2010, 2009 and 2008, respectively, because the effect would be antidilutive.

(2) Options to purchase 5,995 shares, 6,032 shares and 5,611 shares outstanding at December 31, 2010, 2009, and 2008, respectively, were not included in the computation of net income per diluted share because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

(3) Warrants to purchase 813 shares at December 31, 2008, were not included in the computation because the effect would be antidilutive. See Note 15 to the consolidated financial statements.

In June 2008, the FASB issued new guidance impacting FASB ASC 260-10 (FSP No. EITF 03-06-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*). This new guidance became effective for Old National on January 1, 2009. Upon adoption, all prior-period earnings per share data were recalculated according to the new guidance. These calculations resulted in no material changes to earnings per share

data as previously presented.

**STOCK-BASED COMPENSATION**

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

**INCOME TAXES**

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

**Table of Contents**

The Company adopted FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), as of January 1, 2007, and in accordance with this pronouncement, a tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

**STATEMENT OF CASH FLOWS DATA**

For the purpose of presentation in the accompanying consolidated statement of cash flows, cash and cash equivalents are defined as cash, due from banks, federal funds sold and resell agreements, and money market investments, which have maturities less than 90 days. Cash paid during 2010, 2009 and 2008 for interest was \$83.3 million, \$111.6 million and \$154.8 million, respectively. Cash paid for income tax, net of refunds, was a net refund of \$2.0 million during 2010 and payments of \$2.7 million and \$18.9 million during 2009 and 2008, respectively. Other noncash transactions include loans transferred to loans held for sale of \$3.2 million in 2010, \$2.6 million in 2009 and \$2.2 million in 2008, leases transferred from held for sale of \$51.4 million in 2010, leases transferred to held for sale of \$370.2 million in 2009 and transfers of securities from the available-for-sale portfolio to the held-to-maturity portfolio of \$143.8 million in 2010 and \$230.1 million in 2009.

**IMPACT OF ACCOUNTING CHANGES**

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

Old National has loan participations, which qualify as participating interests, with other financial institutions. At December 31, 2010, these loans totaled \$87.3 million, of which \$45.9 million had been sold to other financial institutions and \$41.4 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder, involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder, all cash flows are divided among the participating interest holders in proportion to each holder's share of ownership and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

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

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



**Table of Contents**

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

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

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

**RECLASSIFICATIONS**

Certain prior year amounts have been reclassified to conform to the 2010 presentation. Such reclassifications had no effect on net income and were insignificant amounts.



**Table of Contents**

**NOTE 2 ACQUISITION ACTIVITY  
ACQUISITION**

On March 20, 2009, Old National completed its acquisition of the Indiana retail branch banking network of Citizens Financial Group, which consisted of 65 branches and a training facility. The branches are located primarily in the Indianapolis area, with additional locations in the Lafayette, Fort Wayne, Anderson and Bloomington, Indiana markets. Pursuant to the terms of the purchase agreement, Old National paid Citizens Financial Group approximately \$17.2 million. Old National recorded goodwill of \$8.7 million, intangible assets of \$11.2 million, cash of \$372.7 million, loans of \$5.6 million and other assets of \$11.7 million. Old National assumed deposits of \$426.9 million and other liabilities of \$0.2 million. The intangible assets are related to core deposits and are being amortized on an accelerated basis over 7 years. See Note 6 to the consolidated financial statements for additional information.

On January 1, 2011, Old National acquired 100% of Monroe Bancorp in an all stock transaction. Monroe Bancorp is headquartered in Bloomington, Indiana and has 15 banking centers. The acquisition strengthens Old National's position as the third largest branch network in Indiana. Pursuant to the merger agreement, the shareholders of Monroe Bancorp received approximately 7.6 million shares of Old National Bancorp stock valued at approximately \$90.1 million. On January 1, 2011, unaudited financial statements of Monroe showed total assets of \$808.1 million, including \$493.4 million of net loans, \$166.4 million of securities, \$78.4 million of cash, and \$69.9 million of other assets. Liabilities assumed include \$711.5 million of deposits, \$38.5 of borrowings, and \$7.1 million of other accrued expenses and liabilities. The acquired assets and liabilities will be marked to fair value no later than March 31, 2011, when appraisals and valuations are complete. The Company expects to record goodwill associated with the transaction based on early indications of the loan mark, but the amount and allocation by segment is not known as the initial fair value accounting for the acquisition is incomplete. The goodwill will not be deductible for tax purposes. The Company also expects to record a core deposit intangible and a customer relationship intangible associated with the trust business acquired.

**Table of Contents****NOTE 3 INVESTMENT SECURITIES**

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

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>2010</b>				
<b>Available-for-Sale</b>				
U.S. Treasury	\$ 62,206	\$ 371	\$ (27)	\$ 62,550
U.S. Government-sponsored entities and agencies	315,922	1,612	(2,401)	315,133
Mortgage-backed securities Agency	922,005	22,926	(485)	944,446
Mortgage-backed securities Non-agency	134,168	1,018	(8,380)	126,806
States and political subdivisions	343,970	7,503	(2,549)	348,924
Pooled trust preferred securities	27,368		(18,968)	8,400
Other securities	148,203	7,816	(2,056)	153,963
Total available-for-sale securities	\$ 1,953,842	\$ 41,246	\$ (34,866)	\$ 1,960,222
<b>Held-to-Maturity</b>				
U.S. Government-sponsored entities and agencies	\$ 303,265	\$ 2,247	\$ (3,703)	\$ 301,809
Mortgage-backed securities Agency	117,013	2,577	(510)	119,080
States and political subdivisions	217,381	1	(13,003)	204,379
Other securities	551		(176)	375
Total held-to-maturity securities	\$ 638,210	\$ 4,825	\$ (17,392)	\$ 625,643
<b>2009</b>				
<b>Available-for-Sale</b>				
U.S. Treasury	\$ 1,002	\$ 1	\$	\$ 1,003
U.S. Government-sponsored entities and agencies	918,366	3,260	(7,389)	914,237
Mortgage-backed securities Agency	688,439	19,783	(93)	708,129
Mortgage-backed securities Non-agency	216,215	933	(42,551)	174,597
States and political subdivisions	508,496	27,159	(1,060)	534,595
Pooled trust preferred securities	28,498		(16,100)	12,398
Other securities	138,200	6,098	(3,038)	141,260
Total available-for-sale securities	\$ 2,499,216	\$ 57,234	\$ (70,231)	\$ 2,486,219
<b>Held-to-Maturity</b>				
U.S. Government-sponsored entities and agencies	\$ 227,461	\$ 2,029	\$ (1,613)	\$ 227,877
Mortgage-backed securities Agency	165,639	3,934		169,573
Other securities	2,909		(406)	2,503
Total held-to-maturity securities	\$ 396,009	\$ 5,963	\$ (2,019)	\$ 399,953

Proceeds from sales of investment securities available-for-sale were \$481.5 million in 2010, \$1.042 billion in 2009 and \$281.0 million in 2008. In 2010, realized gains were \$21.7 million and losses were \$4.6 million. Included in the realized gains is \$0.8 million of gains that resulted from approximately \$836.1 million of investment securities which were called by the issuers. Also impacting earnings in 2010 are other-than-temporary impairment charges related to credit losses on three pooled trust preferred securities and ten non-agency mortgage-backed securities in the amount of \$3.9 million, described below. In 2009, realized gains were \$28.2 million and losses were \$0.9 million. Included in the realized gains is \$1.1 million of gains that resulted from approximately \$353.8 million of investment securities which were called by the issuers. Also impacting earnings in 2009 are other-than-temporary-impairment charges related to credit loss on six pooled trust preferred securities and ten non-agency mortgage-backed securities in the amount of \$24.8 million, described below. In 2008, realized gains were \$9.5 million and losses were \$1.9 million. The majority of this gain, or \$5.4 million, resulted from approximately \$405.2 million of investment securities which were called by the issuers. At December 31, investment securities were pledged to secure public and other funds with a carrying value of \$1.481 billion in 2010 and \$1.514 billion in 2009.

**Table of Contents**

At December 31, 2010, Old National had a concentration of investment securities issued by certain states and their political subdivisions with the following aggregate market values: \$212.2 million in Indiana, which represented 24.1% of shareholders' equity. At December 31, 2009, Old National had a concentration of investment securities issued in certain states and their political subdivisions with the following aggregate market values: \$169.6 million in Indiana, which represented 20.1% of shareholders' equity.

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

(dollars in thousands)	2010		Weighted	2009		Weighted
	Amortized	Fair	Average	Amortized	Fair	Average
	Cost	Value	Yield	Cost	Value	Yield
<b>Maturity</b>						
<b>Available-for-sale</b>						
Within one year	\$ 70,326	\$ 70,865	3.24%	\$ 189,690	\$ 178,687	3.97%
One to five years	828,636	850,288	3.51	1,019,693	1,012,714	3.89
Five to ten years	441,900	444,474	3.97	350,866	357,566	4.61
Beyond ten years	612,980	594,595	4.97	938,967	937,252	5.28
Total	\$ 1,953,842	\$ 1,960,222	4.06%	\$ 2,499,216	\$ 2,486,219	4.52%
<b>Held-to-maturity</b>						
Within one year	\$ 71	\$ 56	2.67%	\$	\$	%
One to five years	117,833	119,724	3.65	168,548	172,076	3.64
Five to ten years	12,248	11,785	3.91	227,461	227,877	3.88
Beyond ten years	508,058	494,078	3.88			
Total	\$ 638,210	\$ 625,643	3.84%	\$ 396,009	\$ 399,953	3.78%

**Table of Contents**

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

(dollars in thousands)	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>2010</b>						
<b>Available-for-Sale</b>						
U.S. Treasury	\$ 10,944	\$ (27)	\$	\$	\$ 10,944	\$ (27)
U.S. Government-sponsored entities and agencies	120,404	(2,401)			120,404	(2,401)
Mortgage-backed securities Agency	160,784	(485)	483		161,267	(485)
Mortgage-backed securities Non-agency	13,265	(1,696)	79,327	(6,684)	92,592	(8,380)
States and political subdivisions	94,448	(2,549)			94,448	(2,549)
Pooled trust preferred securities			8,400	(18,968)	8,400	(18,968)
Other securities	12,283	(206)	6,204	(1,850)	18,487	(2,056)
Total available-for-sale	\$ 412,128	\$ (7,364)	\$ 94,414	\$ (27,502)	\$ 506,542	\$ (34,866)
<b>Held-to-Maturity</b>						
U.S. Government-sponsored entities and agencies	\$ 111,975	\$ (3,703)	\$	\$	\$ 111,975	\$ (3,703)
Mortgage-backed securities Agency	67,837	(510)			67,837	(510)
States and political subdivisions	203,093	(13,003)			203,093	(13,003)
Other securities			375	(176)	375	(176)
Total held-to-maturity	\$ 382,905	\$ (17,216)	\$ 375	\$ (176)	\$ 383,280	\$ (17,392)
<b>2009</b>						
<b>Available-for-Sale</b>						
U.S. Government-sponsored entities and agencies	\$ 261,186	\$ (7,389)	\$	\$	\$ 261,186	\$ (7,389)
Mortgage-backed securities Agency	18,488	(93)	37		18,525	(93)
Mortgage-backed securities Non-agency	1,141	(8)	140,622	(42,543)	141,763	(42,551)
States and political subdivisions	75,918	(871)	6,783	(189)	82,701	(1,060)
Pooled trust preferred securities			12,398	(16,100)	12,398	(16,100)
Other securities	4,445	(40)	8,891	(2,998)	13,336	(3,038)

Total available-for-sale	\$ 361,178	\$ (8,401)	\$ 168,731	\$ (61,830)	\$ 529,909	\$ (70,231)
--------------------------	------------	------------	------------	-------------	------------	-------------

**Held-to-Maturity**

U.S. Government-sponsored entities and agencies	\$ 93,467	\$ (1,613)	\$	\$	\$ 93,467	\$ (1,613)
Other securities			2,502	(406)	2,502	(406)
Total held-to-maturity	\$ 93,467	\$ (1,613)	\$ 2,502	\$ (406)	\$ 95,969	\$ (2,019)

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

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

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*).

**Table of Contents**

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

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

As of December 31, 2010, Old National's security portfolio consisted of 1,019 securities, 262 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's non-agency mortgage-backed and pooled trust preferred securities, as discussed below:

**Non-agency Mortgage-backed Securities**

At December 31, 2010, the Company's securities portfolio contained 15 non-agency collateralized mortgage obligations with a fair value of \$126.8 million which had net unrealized losses of approximately \$7.4 million. All of these securities are residential mortgage-backed securities. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of FASB ASC 325-10 (EITF 99-20). In the fourth quarter of 2010, two non-agency mortgage-backed securities were sold. As of December 31, 2010, eight of these securities were rated below investment grade with grades ranging from B- to C. One of the eight securities is rated B- and has a fair value of \$8.3 million, four of the securities are rated CCC with a fair value of \$28.1 million, two of the securities are rated CC with a fair value of \$25.1 million and one of the securities is rated C with a fair value of \$8.8 million. These securities were evaluated to determine if the underlying collateral is expected to experience loss, resulting in a principal loss of the notes. As part of the evaluation, a detailed analysis of deal-specific data was obtained from remittance reports provided by the trustee and data from the servicer. The collateral was broken down into several distinct buckets based on loan performance characteristics in order to apply different assumptions to each bucket. The most significant drivers affecting loan performance were examined including original loan-to-value (LTV), underlying property location and the loan status. The loans in the current status bucket were further divided based on their original LTV: a high-LTV and a low-LTV group to which different default curves and severity percentages were applied. The high-LTV group was further bifurcated into loans originated in high-risk states and all other states with a higher default-curve and severity percentages being applied to loans originated in the high-risk states. Different default curves and severity rates were applied to the remaining non-current collateral buckets. Using these collateral-specific assumptions, a model was built to project the future performance of the instrument. Based on this analysis of the underlying collateral, Old National recorded \$3.0 million of credit losses on ten of these securities for the twelve months ended December 31, 2010. The fair value of the eight non-agency mortgage-backed securities

below investment grade remaining at December 31, 2010 was \$70.3 million.



**Table of Contents**

At December 31, 2009, the Company's securities portfolio contained 17 non-agency collateralized mortgage obligations with a fair value of \$174.6 million which had net unrealized losses of approximately \$41.6 million. All of these securities were 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 December 31, 2009 ten of these securities were rated below investment grade with grades ranging from B to CC. Three of the ten securities were rated B and had a market value of \$27.2 million, four of the securities were rated CCC with a market value of \$34.9 million and three of the securities were rated CC with a market value of \$33.4 million. These securities were evaluated to determine if the underlying collateral is expected to experience loss, resulting in a principal write-down of the notes. As part of the evaluation, a detailed analysis of deal-specific data was obtained from remittance reports provided by the trustee and data from the servicer. The collateral was broken down into several distinct buckets based on loan performance characteristics in order to apply different assumptions to each bucket. The most significant drivers affecting loan performance were examined including original loan-to-value ( LTV ), underlying property location and the loan status. The loans in the current status bucket were further divided based on their original LTV: a high-LTV and a low-LTV group to which different default curves and severity percentages were applied. The high-LTV group was further bifurcated into loans originated in high-risk states and all other states and a higher default-curve and severity percentages were applied to loans originated in the high-risk states. Different default curves and severity rates were applied to the remaining non-current collateral buckets. Using these collateral-specific assumptions, a model was built to project the future performance of the instrument. Based on this analysis of the underlying collateral, Old National recorded \$4.4 million of other-than-temporary impairment on these securities for the twelve months ended December 31, 2009. The fair value of these ten non-agency mortgage-backed securities was \$95.4 million at December 31, 2009.

**Pooled Trust Preferred Securities**

At December 31, 2010, the Company's securities portfolio contained nine pooled trust preferred securities with a fair value of \$8.4 million and unrealized losses of \$19.0 million. Seven of the pooled trust preferred securities in our portfolio 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 \$8.8 million at December 31, 2010. These securities were rated A2 and A3 at inception, but at December 31, 2010, one security was rated BB, five securities were rated C and one security D. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation ( CDO ) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National's note class. For the twelve months ended December 31, 2010, our model indicated other-than-temporary-impairment losses on three securities of \$0.9 million, all of which was recorded as a credit loss in earnings. At December 31, 2010, the fair value of these three securities was \$1.8 million and they remained classified as available for sale.

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



**Table of Contents**

At December 31, 2009, the Company's securities portfolio contained nine pooled trust preferred securities with a market value of \$12.4 million and unrealized losses of \$16.1 million. Seven of the pooled trust preferred securities in our portfolio fall within the scope of FASB ASC 325-10 (EITF 99-20) and have a market value of \$6.0 million with unrealized losses of \$8.4 million at December 31, 2009. These securities were rated A2 and A3 at inception, but at December 31, 2009, one security was rated BBB, four securities were rated CC, one security was rated C and one security was rated D. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation ( CDO ) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National's note class. For the twelve months ended December 31, 2009, our model indicated other-than-temporary-impairment losses on six securities of \$28.6 million, of which \$20.4 million was recorded as expense and \$8.2 million was recorded in other comprehensive income. At December 31, 2009, the fair value of these six securities was \$5.0 million and they remained classified as available for sale.

Two of our pooled trust preferred securities with a fair value of \$6.4 million and unrealized losses of \$7.7 million at December 31, 2009, are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

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

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

**Table of Contents**

Trust preferred securities  
December 31, 2010  
(Dollars in Thousands)

	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2010	Currently Performing Remaining	# of Issuers	Actual Deferrals and Defaults as a Percent of Original Collateral	Expected Defaults as a % of Remaining Collateral	Excess Subordination as a % of Current Collateral
<b>Pooled trust preferred securities:</b>											
TROPIC											
2003-1A	A4L	C	\$ 982	\$ 246	\$ (736)	\$ 444	20/39	38.8%	18.2%	0.0%	
<b>MM</b>											
<b>Community</b>											
Funding IX	B-2	C	2,097	848	(1,249)	165	19/33	35.4%	16.3%	0.0%	
<b>Reg Div</b>											
Funding 2004	B-2	D	4,233	720	(3,513)	321	27/46	40.2%	24.1%	0.0%	
Pretsl XII	B-1	C	2,886	1,219	(1,667)		50/77	30.4%	8.8%	0.0%	
Pretsl XV	B-1	C	1,695	435	(1,260)		52/72	35.0%	12.7%	0.0%	
<b>Reg Div</b>											
Funding 2005	B-1	C	311	38	(273)		23/49	51.3%	38.7%	0.0%	
<b>MM</b>											
<b>Community</b>											
Funding II	B	BB	992	929	(63)		5/8	4.7%	0.0%	12.3%	
<b>Pretsl XXVII</b>											
LTD	B	CC	4,798	1,077	(3,721)		33/49	27.1%	25.9%	23.6%	
<b>Trapeza Ser</b>											
13A	A2A	CCC-	9,374	2,888	(6,486)		44/63	28.5%	25.8%	36.1%	
			27,368	8,400	(18,968)	930					
<b>Single Issuer trust preferred securities:</b>											
<b>First Empire</b>											
Cap (M&T)		BBB-	954	983	29						
<b>First Empire</b>											
Cap (M&T)		BBB-	2,902	2,949	47						
<b>Fleet Cap Tr</b>											
V (BOA)		BB+	3,351	2,442	(909)						
<b>JP Morgan</b>											
Chase Cap		BBB+	4,703	3,762	(941)						

## XIII

11,910    10,136    (1,774)

**Total**                    \$ 39,278    \$ 18,536    \$ (20,742)    \$ 930

(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 December 31, 2010 and the related credit losses recognized in earnings:

	Vintage	Lowest Credit Rating (1)	Amortized Cost	Amount of other-than-temporary impairment recognized in earnings Twelve months ended		Life-to date
				December 31, 2010	2009	
Non-agency mortgage-backed securities:						
BAFC Ser 4	2007	CCC	\$ 14,026	\$ 79	\$ 63	\$ 142
CWALT Ser 73CB	2005	CCC	5,481	207	83	290
CWALT Ser 73CB	2005	CCC	6,248	427	182	609
CWHL 2006-10	2006	C	10,030	309	762	1,071
CWHL 2005-20	2005	B-	8,593	39	72	111
FHASI Ser 4	2007	CC	21,617	629	223	852
RFMSI Ser S9 (2)	2006			923	1,880	2,803
RFMSI Ser S10	2006	CC	4,360	76	249	325
RALI QS2 (2)	2006			278	739	1,017
RFMSI S1	2006	CCC	4,499	30	176	206
			74,854	2,997	4,429	7,426
Pooled trust preferred securities:						
TROPC	2003	C	982	444	3,517	3,961
MM Community Funding IX	2003	C	2,097	165	2,612	2,777
Reg Div Funding	2004	D	4,233	321	5,199	5,520
Pretsl XII	2003	C	2,886		1,897	1,897
Pretsl XV	2004	C	1,695		3,374	3,374
Reg Div Funding	2005	C	311		3,767	3,767
			12,204	930	20,366	21,296
Total other-than-temporary-impairment recognized in earnings				\$ 3,927	\$ 24,795	\$ 28,722

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

(2) Sold during fourth quarter 2010.



**Table of Contents****NOTE 4 LOANS HELD FOR SALE**

Residential loans that Old National has committed to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). At December 31, 2010 and 2009, Old National had residential loans held for sale of \$3.8 million and \$17.5 million, respectively. The majority of new production during 2010 was retained in Old National's loan portfolio, resulting in lower residential loans held for sale.

During 2009, \$258.0 million of finance leases were sold at a price above par; however, the sale resulted in a loss of \$1.4 million after transaction fees. At December 31, 2009, Old National had finance leases held for sale of \$55.3 million. During 2010, management decided to transfer leases from held for sale back to the loan portfolio due to decreased levels of loan production. The leases were transferred at the lower of cost or fair value. No losses were recorded in connection with the transfer. There were no finance leases held for sale at December 31, 2010.

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

During 2009, commercial and commercial real estate loans held for investment of \$2.6 million were reclassified to loans held for sale at the lower of cost or fair value and sold for \$2.0 million, resulting in a write-down on loans transferred to held for sale of \$0.6 million, which was recorded as a reduction to the allowance for loan losses. At December 31, 2009, there were no loans held for sale under this arrangement.

**NOTE 5 FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES**

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

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

(dollars in thousands)	2010	2009
Commercial (1)	\$ 1,211,399	\$ 1,287,168
Commercial real estate:		
Construction	101,016	109,027
Other	841,379	953,883
Residential real estate	664,705	403,391
Consumer credit:		
Heloc	248,293	274,751
Auto	497,102	573,476
Other	179,557	233,790
Subtotal	3,743,451	3,835,486
Allowance for loan losses	(72,309)	(69,548)
Net loans	\$ 3,671,142	\$ 3,765,938

(1) Includes \$106.1 million of direct finance leases.

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

**Commercial**

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some

short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.



**Table of Contents****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.

**Construction**

Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from Old National until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

**Residential and Consumer**

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

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

Activity in related party loans during 2010 is presented in the following table:

(dollars in thousands)	<b>2010</b>
Balance, January 1	\$ 15,712
New loans	6,684
Repayments	(8,145)
Balance, December 31	\$ 14,251

**Table of Contents**

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.

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.

Old National's recorded investment in financing receivables by portfolio segment and the related activity in the allowance for loan losses for the years ended December 31, 2010, and 2009 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
<b>2010</b>						
<b>Allowance for credit losses:</b>						
Beginning balance	\$ 26,869	\$ 27,138	\$ 13,853	\$ 1,688		\$ 69,548
Charge-offs	11,967	10,196	16,848	2,296		41,307
Recoveries	5,060	2,041	6,014	172		13,287
Provision	6,242	13,671	8,123	2,745		30,781
Ending balance	\$ 26,204	\$ 32,654	\$ 11,142	\$ 2,309		\$ 72,309
Ending balance: individually evaluated for impairment	\$ 6,063	\$ 8,514				\$ 14,577
Ending balance: collectively evaluated for impairment	\$ 20,141	\$ 24,140	\$ 11,142	\$ 2,309		\$ 57,732
<b>Financing receivables:</b>						
Ending balance	\$ 1,211,399	\$ 942,395	\$ 924,952	\$ 664,705		\$ 3,743,451
Ending balance: individually evaluated for impairment	\$ 23,944	\$ 29,377				\$ 53,321
Ending balance: collectively evaluated for impairment	\$ 1,187,455	\$ 913,018	\$ 924,952	\$ 664,705		\$ 3,690,130

**Table of Contents**

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
<b>2009</b>						
<b>Allowance for credit losses:</b>						
Beginning balance	\$ 29,254	\$ 22,362	\$ 13,404	\$ 2,067		\$ 67,087
Charge-offs	37,254	21,886	18,156	1,315		78,611
Recoveries	4,865	7,458	5,334	135		17,792
Provision	30,004	19,204	13,271	801		63,280
Ending balance	\$ 26,869	\$ 27,138	\$ 13,853	\$ 1,688		\$ 69,548
Ending balance: individually evaluated for impairment	\$ 7,512	\$ 6,991				\$ 14,503
Ending balance: collectively evaluated for impairment	\$ 19,357	\$ 20,147	\$ 13,853	\$ 1,688		\$ 55,045
<b>Financing receivables:</b>						
Ending balance	\$ 1,287,168	\$ 1,062,910	\$ 1,082,017	\$ 403,391		\$ 3,835,486
Ending balance: individually evaluated for impairment	\$ 24,257	\$ 24,854				\$ 49,111
Ending balance: collectively evaluated for impairment	\$ 1,262,911	\$ 1,038,056	\$ 1,082,017	\$ 403,391		\$ 3,786,375

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 or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

**Table of Contents**

As of December 31, 2010 and 2009, the risk category of loans by class of loans is as follows:

(dollars in thousands)

<b>Corporate Credit Exposure Credit Risk Profile by Internally Assigned Grade</b>	Commercial		Commercial Real Estate- Construction		Commercial Real Estate- Other	
	2010	2009	2010	2009	2010	2009
Grade:						
Pass	\$ 1,105,382	\$ 1,170,845	\$ 77,241	\$ 100,391	\$ 729,243	\$ 839,340
Criticized	38,629	48,008	16,223	8,366	29,161	47,137
Classified substandard	41,899	44,058	7,552		52,559	42,822
Classified doubtful	25,489	24,257		270	30,416	24,584
<b>Total</b>	<b>\$ 1,211,399</b>	<b>\$ 1,287,168</b>	<b>\$ 101,016</b>	<b>\$ 109,027</b>	<b>\$ 841,379</b>	<b>\$ 953,883</b>

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 December 31, 2010 and 2009:

2010 (dollars in thousands)	Consumer			
	Heloc	Auto	Other	Residential
Performing	\$ 246,390	\$ 494,771	\$ 177,470	\$ 655,986
Nonperforming	1,903	2,331	2,087	8,719
	\$ 248,293	\$ 497,102	\$ 179,557	\$ 664,705
<b>2009</b> (dollars in thousands)				
Performing	\$ 272,818	\$ 570,221	\$ 230,695	\$ 393,770
Nonperforming	1,933	3,255	3,095	9,621
	\$ 274,751	\$ 573,476	\$ 233,790	\$ 403,391

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 subject to testing for individual impairment. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Old National's policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status. For the years ended December 31, 2010 and 2009, the average balance of impaired loans was \$51.2 million and \$50.8 million, respectively, for which no interest income was recorded. No additional funds are committed to be advanced in connection with impaired loans.

**Table of Contents**

The following table shows Old National's impaired loans that are individually evaluated as of December 31:

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized (1)
<b>2010</b>					
With no related allowance recorded:					
Commercial	\$ 6,116	\$ 8,001	\$	\$ 4,972	\$ 61
Commercial Real Estate Construction					
Commercial Real Estate Other	10,554	16,781		9,693	250
With an allowance recorded:					
Commercial	17,828	20,341	6,063	19,129	545
Commercial Real Estate Construction				135	
Commercial Real Estate Other	18,823	19,849	8,514	17,288	423
Total					
Commercial	53,321	64,972	14,577	51,217	1,279
<b>2009</b>					
With no related allowance recorded:					
Commercial	\$ 3,827	\$ 18,422	\$	\$ 3,070	\$ 89
Commercial Real Estate Construction				608	
Commercial Real Estate Other	8,831	16,694		9,636	131
With an allowance recorded:					
Commercial	20,430	27,972	7,512	19,189	497
Commercial Real Estate Construction	270	314		690	5
Commercial Real Estate Other	15,752	19,286	6,991	17,560	333
Total					
Commercial	49,110	82,688	14,503	50,753	1,055

(1) The Company does not record interest on nonaccrual loans until cash payments are received.

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.

**Table of Contents**

Old National's past due financing receivables as of December 31 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
<b>2010</b>						
Commercial	\$ 2,543	\$ 583	\$ 79	\$ 25,488	\$ 28,693	\$ 1,182,706
Commercial Real Estate:						
Construction						101,016
Other	992	98		30,416	31,506	809,873
Consumer:						
Heloc	849	477	189	1,903	3,418	244,875
Auto	5,791	1,316	120	2,331	9,558	487,544
Other	1,129	972	184	2,088	4,373	175,184
Residential	9,126	1,589		8,719	19,434	645,271
<b>Total</b>	<b>\$ 20,430</b>	<b>\$ 5,035</b>	<b>\$ 572</b>	<b>\$ 70,945</b>	<b>\$ 96,982</b>	<b>\$ 3,646,469</b>
<b>2009</b>						
Commercial	\$ 2,967	\$ 2,291	\$ 1,753	\$ 24,257	\$ 31,268	\$ 1,255,900
Commercial Real Estate:						
Construction				270	270	108,757
Other	2,663	1,905	72	24,584	29,224	924,659
Consumer:						
Heloc	695	739	822	1,933	4,189	270,562
Auto	7,603	1,326	287	3,255	12,471	561,005
Other	1,656	1,142	567	3,096	6,461	227,329
Residential	6,860	1,426		9,621	17,907	385,484
<b>Total</b>	<b>\$ 22,444</b>	<b>\$ 8,829</b>	<b>\$ 3,501</b>	<b>\$ 67,016</b>	<b>\$ 101,790</b>	<b>\$ 3,733,696</b>

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

Loans modified in a troubled debt restructuring are placed on nonaccrual status until the Company determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. At December 31, 2010, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled \$4.8 million, consisting of \$3.8 million of commercial loans and \$1.0 million of commercial real estate loans, and had specific allocations of

allowance for loan losses of \$1.6 million. At December 31, 2009, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled \$10.0 million, consisting of \$7.6 million of commercial loans and \$2.4 million of commercial real estate loans, and had specific allocations of allowance for loan losses of \$3.5 million. 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.



**Table of Contents****NOTE 6 GOODWILL AND OTHER INTANGIBLE ASSETS**

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

(dollars in thousands)	<b>Community Banking</b>	<b>Other</b>	<b>Total</b>
Balance, January 1, 2010	\$ 128,011	\$ 39,873	\$ 167,884
Goodwill acquired during the period			
Balance, December 31, 2010	\$ 128,011	\$ 39,873	\$ 167,884
Balance, January 1, 2009	\$ 119,325	\$ 39,873	\$ 159,198
Goodwill acquired during the period	8,686		8,686
Balance, December 31, 2009	\$ 128,011	\$ 39,873	\$ 167,884

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2010 and determined that no impairment existed as of this date. Old National recorded \$8.7 million of goodwill in 2009 associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group.

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

(dollars in thousands)	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
<b>2010</b>			
Amortized intangible assets:			
Core deposit	\$ 26,810	\$ (14,646)	\$ 12,164
Customer business relationships	25,753	(14,581)	11,172
Customer loan relationships	4,413	(1,571)	2,842
Total intangible assets	\$ 56,976	\$ (30,798)	\$ 26,178
<b>2009</b>			
Amortized intangible assets:			
Core deposit	\$ 26,810	\$ (10,794)	\$ 16,016
Customer business relationships	25,753	(12,705)	13,048
Customer loan relationships	4,413	(1,170)	3,243
Total intangible assets	\$ 56,976	\$ (24,669)	\$ 32,307

Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated lives, generally over a period of 7 to 25 years. During the first quarter of 2009, Old National recorded \$11.2 million of core deposit intangibles associated with the acquisition of the branch banking network of Citizens Financial Group, which is included in the Community Banking segment. See Note 21 to the consolidated financial statements for a description of the Company's operating segments.

Old National reviews other intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Old National recorded impairment charges of \$0.5 million and \$0.7 million during the fourth quarter of 2009 and the second quarter of 2008, respectively. Both charges related to a book of business held by one of the Company's insurance subsidiaries which experienced the loss of two significant customers. The insurance subsidiary is included in the Other column for segment reporting. Total amortization expense including impairment charges associated with intangible assets was \$6.1 million in 2010, \$6.5 million in 2009 and \$4.4 million in 2008.

**Table of Contents**

Estimated amortization expense for the future years is as follows:

(dollars in thousands)	Estimated Amortization Expense
2011	\$ 5,546
2012	4,840
2013	4,050
2014	3,259
2015	2,659
Thereafter	5,824
<b>Total</b>	<b>\$ 26,178</b>

**NOTE 7 DEPOSITS**

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2010 and 2009 was \$466.3 million and \$653.3 million, respectively. At December 31, 2010, the scheduled maturities of total time deposits were as follows:

(dollars in thousands)	
Due in 2011	\$ 716,453
Due in 2012	342,554
Due in 2013	240,283
Due in 2014	36,102
Due in 2015	52,449
Thereafter	87,416
SFAS 133 fair value hedge	
<b>Total</b>	<b>\$ 1,475,257</b>

**NOTE 8 SHORT-TERM BORROWINGS**

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

(dollars in thousands)	<b>Federal Funds Purchased</b>	<b>Repurchase Agreements</b>	<b>Other Short-term Borrowings</b>	<b>Total</b>
<b>2010</b>				
Outstanding at year-end	\$ 1,663	\$ 287,414	\$ 9,155	\$ 298,232
Average amount outstanding	7,012	312,773	8,750	328,535
Maximum amount outstanding at any month-end	41,365	348,403	10,423	
Weighted average interest rate:				
During year	0.18%	0.17%	1.27%	0.20%
End of year		0.16		0.16
<b>2009</b>				
Outstanding at year-end	\$ 1,483	\$ 318,088	\$ 11,573	\$ 331,144
Average amount outstanding	155,982	297,148	74,017	527,147

Maximum amount outstanding at any month-end	488,392	319,590	158,809	
Weighted average interest rate:				
During year	0.20%	0.20%	0.68%	0.27%
End of year		0.17		0.16

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

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

**Treasury Investment Program**

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

As of December 31, 2009, Old National had \$11.6 million of Treasury funds under the Treasury Tax and Loan Account program. These funds typically have a short duration, are collateralized and can be withdrawn by the Treasury Department at any time. At December 31, 2009, the effective interest rate on these funds was 0%.

**NOTE 9 FINANCING ACTIVITIES**

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

(dollars in thousands)	<b>2010</b>	<b>2009</b>
<b>Old National Bancorp:</b>		
Senior unsecured notes (fixed rate 5.00%) maturing May 2010	\$	\$ 50,000
Junior subordinated debentures (variable rates 2.05% to 3.35%) maturing July 2033 to March 2035	<b>8,000</b>	108,000
SFAS 133 fair value hedge and other basis adjustments	<b>(36)</b>	(726)
<b>Old National Bank:</b>		
Securities sold under agreements to repurchase (variable rate 3.09%) maturing October 2014	<b>50,000</b>	99,000
Federal Home Loan Bank advances (fixed rates 1.24% to 8.34% and variable rate 2.57%) maturing June 2012 to January 2023	<b>211,696</b>	289,974
Subordinated bank notes (fixed rate 6.75%) maturing October 2011	<b>150,000</b>	150,000
Capital lease obligation	<b>4,307</b>	4,350
SFAS 133 fair value hedge and other basis adjustments	<b>(2,056)</b>	(1,539)
<b>Total other borrowings</b>	<b>\$ 421,911</b>	<b>\$ 699,059</b>

Contractual maturities of long-term debt at December 31, 2010, were as follows:

(dollars in thousands)	
Due in 2011	\$ 150,046
Due in 2012	688
Due in 2013	75,918
Due in 2014	92,560
Due in 2015	16,763
Thereafter	88,028
SFAS 133 fair value hedge and other basis adjustments	(2,092)
<b>Total</b>	<b>\$ 421,911</b>

**Table of Contents****FEDERAL HOME LOAN BANK**

Federal Home Loan Bank advances had weighted-average rates of 3.32% and 3.68% at December 31, 2010, and 2009, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 150% of outstanding debt.

**SUBORDINATED BANK NOTES**

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

According to capital guidelines, the portion of limited-life capital instruments that is includible in Tier 2 capital is limited within five years or less until maturity. As of December 31, 2010, none of the subordinated bank notes qualified as Tier 2 Capital for regulatory purposes. As shown in the table above, the subordinated bank notes mature October 2011. Capital treatment ceased October 2010, or one year prior to the maturity date.

**JUNIOR SUBORDINATED DEBENTURES**

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

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

In 2007, Old National acquired St. Joseph Capital Trust I and St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust I and St. Joseph Capital Trust II. St. Joseph Capital Trust I issued \$3.0 million in preferred securities in July 2003. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 305 basis points, payable quarterly and maturing on July 11, 2033. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust I. St. Joseph Capital Trust II issued \$5.0 million in preferred securities in March 2005. The preferred securities had a cumulative annual distribution rate of 6.27% until March 2010 and now carry a variable rate of interest priced at the three-month LIBOR plus 175 basis points, payable quarterly and maturing on March 17, 2035. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust II. Old National may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole (or in part from time to time) on or after September 30, 2008 (for debentures owned by St. Joseph Capital Trust I) and on or after March 31, 2010 (for debentures owned by St. Joseph Capital Trust II), and in whole (but not in part) following the occurrence and continuance of certain adverse federal income tax or capital treatment events.

**CAPITAL LEASE OBLIGATION**

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

**Table of Contents**

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

(dollars in thousands)

2011	\$	390
2012		390
2013		390
2014		410
2015		410
Thereafter		10,494
Total minimum lease payments		12,484
Less amounts representing interest		8,177
Present value of net minimum lease payments	\$	4,307

**NOTE 10 INCOME TAXES**

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

(dollars in thousands)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Provision at statutory rate of 35%	\$ 15,218	\$ (2,582)	\$ 21,560
Tax-exempt income:			
Tax-exempt interest	(9,060)	(14,545)	(13,309)
Section 291/265 interest disallowance	329	515	827
Bank owned life insurance income	(1,418)	(824)	(3,213)
Tax-exempt income	(10,149)	(14,854)	(15,695)
Reserve for unrecognized tax benefits	(652)	(706)	(6,611)
State income taxes	518	(3,829)	(398)
Other, net	331	857	267
Income tax expense (benefit)	\$ 5,266	\$ (21,114)	\$ (877)
Effective tax rate	12.1%	286.2%	(1.4)%

The effective tax rate varied significantly from 2008 through 2010 due to large fluctuations in pre-tax income while the majority of other items affecting the rate, in particular tax-exempt income, remained relatively stable. The increase in our state tax benefit in 2009 directly correlates to the declines in pre-tax income. The provision for income taxes consisted of the following components for the years ended December 31:

(dollars in thousands)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Income taxes currently payable			
Federal	\$ 2,687	\$ 4,248	\$ 8,269
State			(612)
Deferred income taxes related to:			
Provision for loan losses	(460)	(3,042)	(5,982)
Other, net	3,039	(22,320)	(2,552)

Deferred income tax benefit	<b>2,579</b>	(25,362)	(8,534)
Provision for (benefit from) income taxes	<b>\$ 5,266</b>	\$ (21,114)	\$ (877)

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



**Table of Contents**

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

(dollars in thousands)	<b>2010</b>	<b>2009</b>
<b>Deferred Tax Assets</b>		
Allowance for loan losses, net of recapture	\$ 29,334	\$ 28,874
Benefit plan accruals	1,369	6,131
AMT credit	25,509	25,075
Unrealized losses on available-for-sale investment securities		5,276
Unrealized losses on benefit plans	7,715	9,102
Net operating loss	3,452	3,578
Premises and equipment	35,657	37,715
Low income housing credit	3,621	451
Other-than-temporary-impairment	9,624	9,451
Other, net	6,427	9,593
<b>Total deferred tax assets</b>	<b>122,708</b>	<b>135,246</b>
<b>Deferred Tax Liabilities</b>		
Accretion on investment securities	(559)	(993)
Lease receivable, net	(7,761)	(7,434)
Purchase accounting	(11,605)	(11,285)
Unrealized gains on available-for-sale investment securities	(2,600)	
Unrealized gains on held-to-maturity securities	(3,773)	(541)
Unrealized gains on hedges	(567)	(131)
Other, net	(1,940)	(2,045)
<b>Total deferred tax liabilities</b>	<b>(28,805)</b>	<b>(22,429)</b>
<b>Net deferred tax assets</b>	<b>\$ 93,903</b>	<b>\$ 112,817</b>

No valuation allowance was recorded at December 31, 2010 and 2009 because, based on current expectations, Old National believes it will generate sufficient income in future years to realize deferred tax assets. Old National did not have a federal net operating loss carryforward at December 31, 2010 or 2009, respectively. Old National has alternative minimum tax credit carryforwards at December 31, 2010 and 2009 of \$25.5 million and \$25.1 million, respectively. The alternative minimum tax credit carryforward does not expire. Old National has low income housing credit carryforwards at December 31, 2010 and 2009 of \$3.6 million and \$0.5 million, respectively. If not used, the low income housing credit carryforwards will begin to expire in 2026. Old National has state net operating loss carryforwards totaling \$63.7 million and \$66.0 million at December 31, 2010 and 2009, respectively. If not used, the net operating loss carryforwards will begin to expire in 2020.

**Unrecognized Tax Benefits**

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

**Table of Contents**

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

(dollars in thousands)	2010	2009	2008
Balance at January 1	\$ 8,500	\$ 7,513	\$ 11,554
Additions based on tax positions related to the current year	3,806	7,293	5,849
Reductions due to statute of limitations expiring	(3,440)	(5,186)	
Reductions for tax positions of prior years	(4,313)	(1,120)	(6,422)
Settlements			(3,468)
Balance at December 31	\$ 4,553	\$ 8,500	\$ 7,513

Settlements include effective settlements from tax audits. No cash settlements were paid during 2010 or 2009. Approximately \$0.76 million of unrecognized tax benefits, net of interest, if recognized, would favorably affect the effective income tax rate in future periods. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

It is the Company's policy to recognize interest and penalties accrued relative to unrecognized tax benefits in their respective federal or state income tax accounts. The Company recorded interest and penalties in the income statement for the years ended December 31, 2010, 2009 and 2008 of \$0.3 million, \$0, and a benefit of \$0.2 million, respectively. The amount accrued for interest and penalties in the balance sheet at December 31, 2010 and 2009 was \$1.6 million and \$1.3 million, respectively.

The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. The 2007 through 2010 tax years are open and subject to examination.

In the third quarter of 2010, the Company reversed \$0.65 million related to uncertain tax positions accounted for under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The positive \$0.65 million income tax reversal relates to the 2006 statute of limitations expiring. The statute of limitations expired in the third quarter of 2010. As a result, the Company reversed a total of \$0.65 million from its unrecognized tax benefit liability which includes \$.05 million of interest.

In the third quarter of 2009, the Company reversed \$0.7 million related to uncertain tax positions accounted for under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The positive \$0.7 million income tax reversal relates to the 2005 statute of limitations expiring. The statute of limitations expired in the third quarter of 2009. As a result, the Company reversed a total of \$0.7 million from its unrecognized tax benefit liability which includes \$.05 million of interest.

In the first quarter of 2008, the Company reversed \$6.6 million related to uncertain tax positions accounted for under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The positive \$6.6 million income tax reversal primarily relates to a U.S. Tax Court decision confirming that a subsidiary of a bank can deduct the interest expense of tax exempt obligations it has purchased. The time for the Internal Revenue Service to appeal the court ruling expired in the first quarter. The Company also was informed by the Internal Revenue Service that they would not audit tax year 2005 as they previously indicated. The statute of limitations for 2005 subsequently expired in the third quarter of 2009. As a result of these items, the Company reversed a total of \$6.6 million from its unrecognized tax benefit liability which includes \$0.5 million of interest.

**Table of Contents****NOTE 11 EMPLOYEE BENEFIT PLANS  
RETIREMENT PLAN AND RESTORATION PLAN**

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five years of employment. The freezing of the plan provides that future salary increases will not be considered. Old National's policy is to contribute at least the minimum funding requirement determined by the plan's actuary. Old National also maintains an unfunded pension restoration plan (the Restoration Plan) which provides benefits for eligible employees that are in excess of the limits under Section 415 of the Internal Revenue Code of 1986, as amended, that apply to the Retirement Plan. The Restoration Plan is designed to comply with the requirements of ERISA. The entire cost of the plan, which was also frozen as of December 31, 2005, is supported by contributions from the Corporation.

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

(dollars in thousands)	2010	2009
<b>Change in Projected Benefit Obligation</b>		
Balance at January 1	\$ 41,937	\$ 34,569
Interest cost	1,990	1,974
Benefits paid	(983)	(2,213)
Actuarial (gain)/loss	1,233	7,607
Settlement	(2,015)	
 Projected Benefit Obligation at December 31	 42,162	 41,937
 <b>Change in Plan Assets</b>		
Fair value at January 1	31,275	26,920
Actual return on plan assets	4,177	6,198
Employer contributions	7,647	370
Benefits paid	(983)	(2,213)
Settlement	(2,015)	
 Fair value of Plan Assets at December 31	 40,101	 31,275
 <b>Funded status at December 31</b>	 <b>(2,061)</b>	 <b>(10,662)</b>
 Amounts recognized in the statement of financial position at December 31:		
Prepaid benefit cost	\$	\$
Accrued benefit liability	(2,061)	(10,662)
 Net amount recognized	 \$ (2,061)	 \$ (10,662)
 Amounts recognized in accumulated other comprehensive income at December 31:		
Net actuarial loss	\$ 19,284	\$ 22,754
 Total	 \$ 19,284	 \$ 22,754

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$2.8 million.

The accumulated benefit obligation and the projected benefit obligation were equivalent for the defined benefit pension plans and were \$42.2 million and \$41.9 million at December 31, 2010 and 2009, respectively.

**Table of Contents**

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

(dollars in thousands)	2010	2009	2008
<b>Net Periodic Benefit Cost</b>			
Interest cost	\$ 1,990	\$ 1,974	\$ 2,143
Expected return on plan assets	(1,960)	(1,933)	(3,169)
Recognized actuarial loss	1,603	1,453	632
Net periodic benefit cost	\$ 1,633	\$ 1,494	\$ (394)
Settlement cost	883		1,498
Total net periodic benefit cost	\$ 2,516	\$ 1,494	\$ 1,104
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income</b>			
Net actuarial loss	\$ (983)	\$ 3,342	\$ 11,353
Amortization of net actuarial loss	(1,603)	(1,453)	(632)
Settlement cost	(883)		(1,498)
Total recognized in Other Comprehensive Income	\$ (3,469)	\$ 1,889	\$ 9,223
<b>Total recognized in net periodic benefit cost and other comprehensive income</b>	\$ (953)	\$ 3,383	\$ 10,327

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

	2010	2009	2008
Benefit obligations:			
Discount rate at the end of the period	5.50%	5.25%	6.25%
Net periodic benefit cost:			
Discount rate at the beginning of the period	5.25%	6.25%	5.75%
Expected return on plan assets	8.00	8.00	8.00
Rate of compensation increase	N/A	N/A	N/A

The expected long-term rate of return for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation of the plan. The discount rate used reflects the expected future cash flow based on Old National's funding valuation assumptions and participant data as of the beginning of the plan year. The expected future cash flow is discounted by the Principal Pension Discount yield curve as of December 31, 2010.

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

Asset Category	Expected	2010	2010	2009	2008
	Long-Term	Target			
	Rate of Return	Allocation			

Edgar Filing: OLD NATIONAL BANCORP /IN/ - Form 10-K

Equity securities	9.00%	9.50%	40	70%	<b>68%</b>	71%	66%
Debt securities	4.00%	5.85%	30	60%	<b>27</b>	29	34
Cash equivalents			0	15%	<b>5</b>		
Total					<b>100%</b>	100%	100%

The Company's overall investment strategy is to achieve a mix of approximately 40% to 70% of equity securities, 30% to 60% of debt securities and 0% to 15% of cash equivalents. Fixed income securities and cash equivalents must meet minimum rating standards. Exposure to any particular company or industry is also limited. The investment policy is reviewed annually. There was no Old National stock in the plan as of December 31, 2010, 2009 and 2008, respectively.

**Table of Contents**

The fair value of the Company's plan assets are determined based on observable level 1 or 2 pricing inputs, including quoted prices for similar assets in active or non-active markets. As of December 31, 2010, the fair value of plan assets, by asset category, is as follows:

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

As of December 31, 2010, expected future benefit payments related to Old National's defined benefit plans were as follows:

(dollars in thousands)	
2011	\$ 8,000
2012	4,640
2013	3,520
2014	3,470
2015	3,240
Years 2016 - 2020	14,790

Old National expects to contribute cash of \$0.8 million to the pension plans in 2011.

**EMPLOYEE STOCK OWNERSHIP PLAN**

The Employee Stock Ownership and Savings Plan (401k) permits employees to participate the first month following one month of service. Effective as of April 1, 2010, the Company suspended safe harbor matching contributions to the Plan. However, the Company may make discretionary matching contributions to the Plan. For 2010, the Company matched 50% of employee compensation deferral contributions, up to six percent of compensation. In addition to matching contributions, Old National may contribute to the Plan an amount designated as a profit sharing contribution in the form of Old National Bancorp stock or cash. Old National's Board of Directors designated no discretionary profit sharing contributions in 2010, 2009 or 2008. All contributions vest immediately and plan participants may elect to redirect funds among any of the investment options provided under the plan. During the years ended December 31, 2010, 2009 and 2008, the number of Old National shares allocated to the plan were 1.5 million, 1.7 million and 1.8 million, respectively. All shares owned through the plan are included in the calculation of weighted-average shares outstanding for purposes of calculating diluted and basic earnings per share. Contribution expense under the plan was \$4.3 million in 2010, \$7.1 million in 2009 and \$6.6 million in 2008.





**Table of Contents****NOTE 12 STOCK-BASED COMPENSATION**  
**STOCK-BASED COMPENSATION**

The Company's 2008 Incentive Compensation Plan, which was shareholder-approved, permits the grant of share-based awards to its employees. At December 31, 2010, 1.3 million shares were available for issuance. The granting of awards to key employees is typically in the form of restricted stock or options to purchase common shares of stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Total compensation cost that has been charged against income for these plans was \$2.4 million, \$1.3 million, and \$2.0 million for 2010, 2009, and 2008, respectively. The total income tax benefit was \$0.9 million, \$0.5 million, and \$0.7 million, respectively.

*Stock Options*

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

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

The fair value of options granted was determined using the following weighted-average assumptions as of grant date. No stock options were granted in 2010.

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Wtd-average risk-free interest rate	%	2.1%	3.0%
Expected life of option (years)		6	6
Expected stock volatility	%	28.8%	15.8%
Expected dividend yield	%	5.3%	5.3%

A summary of the activity in the stock option plan for 2010 follows:

	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term in Years</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
(shares in thousands)				
Outstanding, January 1	<b>6,056</b>	<b>\$ 20.37</b>		
Granted				
Exercised	<b>(2)</b>	<b>5.44</b>		
Forfeited	<b>(36)</b>	<b>20.90</b>		
Outstanding, December 31	<b>6,018</b>	<b>\$ 20.37</b>	<b>3.6</b>	<b>\$ 67.3</b>
Options exercisable at end of year	<b>5,810</b>	<b>\$ 20.59</b>	<b>3.5</b>	<b>\$ 67.3</b>



**Table of Contents**

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

(dollars in thousands)	2010	2009	2008
Intrinsic value of options exercised	\$ 13	\$ 44	\$ 277
Cash received from option exercises	12	97	1,940
Tax benefit realized from option exercises			45
Weighted average fair value of options granted		2.03	1.12

As of December 31, 2010, there was \$0.1 million of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.02 year. During 2009, the Company modified the term of 23 thousand share options. As a result of the modification, the Company recognized additional compensation expense of \$35 thousand for the year ended December 31, 2009. There were no modifications during 2010.

*Restricted Stock*

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

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

(shares in thousands)	Number Outstanding	Weighted Average Grant-Date Fair Value
Nonvested balance at January 1, 2010	474	\$ 16.42
Granted during the year	112	11.84
Vested during the year	(110)	16.59
Forfeited during the year	(100)	18.31
Nonvested balance at December 31, 2010	376	\$ 14.49

As of December 31, 2010, there was \$1.6 million of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.62 years. The total fair value of the shares vested during the years ended December 31, 2010, 2009 and 2008 was \$1.3 million, \$1.4 million and \$0.8 million, respectively.

During 2008, the Company modified the number of shares, performance period and vesting schedule of a restricted stock award issued to an employee. As a result of that modification, the Company recognized additional compensation expense of \$45 thousand for the year ended December 31, 2008.

*Restricted Stock Units*

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

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

(shares in thousands)	Number Outstanding	Weighted Average Grant-Date Fair Value
Nonvested balance at January 1, 2010	106	\$ 12.55
Granted during the year	137	13.07
Reinvested dividend equivalents	10	10.90

Nonvested balance at December 31, 2010	<b>253</b>	<b>\$</b>	<b>12.83</b>
--	------------	-----------	--------------

As of December 31, 2010 and 2009, there was \$1.8 million and \$0.9 million, respectively, of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.89 years. Old National began granting restricted stock units during 2009 and no shares had vested as of December 31, 2010.

**Table of Contents**

**NOTE 13 OUTSIDE DIRECTOR STOCK COMPENSATION PROGRAM**

Old National maintains a director stock compensation program covering all outside directors. Compensation shares are earned semi-annually. A maximum of 165,375 shares of common stock is available for issuance under this program. As of December 31, 2010, Old National had issued 56,178 shares under this program.

**NOTE 14 SHAREHOLDERS EQUITY**

**DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN**

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

**EMPLOYEE STOCK PURCHASE PLAN**

Old National has an employee stock purchase plan under which eligible employees can purchase common shares at a price not less than 95% of the fair market value of the common shares on the purchase date. The amount of common shares purchased can not exceed ten percent of the employee's compensation. The maximum number of shares that may be purchased under this plan is 500,000 shares. In 2010, 19 thousand shares were issued related to this plan with proceeds of approximately \$197 thousand. In 2009, 5 thousand shares were issued related to this plan with proceeds of approximately \$51 thousand.

**SHAREHOLDER RIGHTS PLAN**

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

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

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

**Table of Contents****PREFERRED STOCK**

On December 12, 2008, Old National announced that it had entered into an agreement to sell Series T Preferred Stock having a liquidation value of \$100 million to the Treasury Department as part of the CPP for healthy financial institutions announced in late October 2008. As part of the CPP, Old National entered into a Letter Agreement and Securities Purchase Agreement with the Treasury Department on December 12, 2008, pursuant to which Old National sold (i) 100,000 shares of Old National's Series T Preferred Stock and (ii) Warrants to purchase up to 813,008 shares of Old National's common stock at an initial per share exercise price of \$18.45. The net proceeds were allocated between the Series T Preferred Stock and Warrants based on relative fair value. The Series T Preferred Stock would be accreted to liquidation value over the expected life of the shares, with accretion charged to retained earnings. The Series T Preferred Stock qualified as Tier 1 capital and the Treasury Department was entitled to cumulative dividends at a rate of 5% per year for the first five years, and 9% per year thereafter. The Series T Preferred Stock had priority in the payment of dividends over any cash dividends paid to common stockholders. The adoption of ARRA permitted Old National to redeem the Series T Preferred Stock without penalty and without the need to raise new capital, subject to the Treasury's consultation with Old National's regulatory agency. On March 31, 2009, Old National accelerated the accretion of the \$2.6 million discount and repurchased all of the \$100 million of Series T Preferred Stock from the Treasury Department.

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

**COMMON STOCK**

The December 31, 2010 and 2009 balances include approximately \$195.7 million, net of issuance costs, from a public offering of 20.7 million shares of common stock that occurred late in the third quarter of 2009.

**NOTE 15 FAIR VALUE**

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

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

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

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

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

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

**Table of Contents**

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

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

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

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

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

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

Other securities	<b>141,260</b>	<b>141,260</b>
Residential loans held for sale	<b>17,530</b>	<b>17,530</b>
Derivative assets	<b>29,920</b>	<b>29,920</b>
<b>Financial Liabilities</b>		
Derivative liabilities	<b>29,479</b>	<b>29,479</b>



**Table of Contents**

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the twelve months ended December 31, 2010:

	<b>Fair Value Measurements using Significant Unobservable Inputs (Level 3) Pooled Trust Preferred Securities Available- for-Sale</b>
(dollars in thousands)	
Beginning balance, January 1, 2010	\$ 12,398
Accretion/(amortization) of discount or premium	(101)
Payments received	(163)
Credit loss write-downs	(930)
Increase/(decrease) in fair value of securities	(2,804)
Ending balance, December 31, 2010	\$ 8,400

Included in the income statement are \$101 thousand of expense included in interest income from the amortization of premiums on securities and \$930 thousand of credit losses included in noninterest income. The decrease in fair value is reflected in the balance sheet as a decrease in the fair value of investment securities available-for sale, a decrease in accumulated other comprehensive income, which is included in shareholders' equity, and an increase in other assets related to the tax impact.

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

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

Included in the income statement are \$141 thousand of expense included in interest income from the amortization of premiums on securities and \$20.4 million of credit losses included in noninterest income. The increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for sale, an increase in accumulated other comprehensive income, which is included in shareholders' equity, and a decrease in other assets related to the tax impact.



**Table of Contents**

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

	<b>Fair Value Measurements at December 31, 2010</b>			
	<b>Carrying Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Using Significant</b>	
<b>Observable Inputs (Level 2)</b>			<b>Unobservable Inputs (Level 3)</b>	
(dollars in thousands)				
<b>Financial Assets</b>				
Impaired loans	\$ 22,833			\$ 22,833

Impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of \$36.4 million, with a valuation allowance of \$13.6 million at December 31, 2010. Old National recorded \$7.1 million of provision expense associated with these loans in 2010.

	<b>Fair Value Measurements at December 31, 2009</b>			
	<b>Carrying Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Using Significant</b>	
<b>Observable Inputs (Level 2)</b>			<b>Unobservable Inputs (Level 3)</b>	
(dollars in thousands)				
<b>Financial Assets</b>				
Impaired loans	\$ 21,949			\$ 21,949

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

**Financial instruments recorded using fair value option**

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

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

Residential mortgage loans held for sale

Certain retail certificates of deposit

For items for which the fair value option has been elected, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on financial assets (except any that are on

nonaccrual status). Included in the income statement is \$214 thousand of interest income for residential loans held for sale for the year ended December 31, 2010. Included in the income statement is \$635 thousand of interest income for residential loans held for sale for the year ended December 31, 2009. Interest expense is recorded based on the contractual amount of interest expense incurred. The income statement includes no interest expense for the year ended December 31, 2010, for certain retail certificates of deposit. The income statement includes \$73 thousand of interest expense for the year ended December 31, 2009, for certain retail certificates of deposit.

Residential mortgage loans held for sale

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

**Table of Contents****Certain retail certificates of deposit**

Previously, Old National had elected the fair value option for certain retail certificates of deposit; specifically, pools of retail certificates of deposit that had been matched with derivative instruments. Old National had elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification. At both December 31, 2010 and 2009, there were no retail certificates of deposit accounted for under the fair value option.

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

(dollars in thousands)	<b>Aggregate Fair Value</b>	<b>Difference</b>	<b>Contractual Principal</b>
Residential loans held for sale	\$ 3,819	\$ (20)	\$ 3,839

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

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

(dollars in thousands)	<b>Other</b>			<b>Total Changes in Fair Values Included in Current Period Earnings</b>
	<b>Gains and (Losses)</b>	<b>Interest Income</b>	<b>Interest (Expense)</b>	
Residential loans held for sale	\$ (306)	\$ 2	\$	\$ (304)

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

(dollars in thousands)	<b>Aggregate Fair Value</b>	<b>Difference</b>	<b>Contractual Principal</b>
Residential loans held for sale	\$ 17,530	\$ 284	\$ 17,246

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

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

(dollars in thousands)	<b>Other</b>			<b>Total Changes in Fair Values Included in Current Period Earnings</b>
	<b>Gains and (Losses)</b>	<b>Interest Income</b>	<b>Interest (Expense)</b>	
Residential loans held for sale	\$ (295)	\$	\$	\$ (295)



**Table of Contents**

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

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

**Table of Contents**

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

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

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

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

Federal Home Loan Bank Stock: Old National Bank is a member of the Federal Home Loan Bank system.

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

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

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

Accrued interest receivable: The carrying amount approximates fair value.

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

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

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





**Table of Contents**

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

**Off-balance sheet financial instruments:** Fair values for off-balance sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements. For further information regarding the notional amounts of these financial instruments, see Notes 17 and 18.

**NOTE 16 DERIVATIVE FINANCIAL INSTRUMENTS**

As part of the Company's overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was \$195.0 million and \$297.5 million at December 31, 2010 and December 31, 2009, respectively. The December 31, 2010 balances consist of \$95.0 million notional amount of receive-fixed interest rate swaps on certain of its FHLB advances and \$100.0 million notional amount of receive-fixed interest rate swaps on certain commercial loans. The December 31, 2009 balances consist of \$197.5 million notional amount of receive-fixed interest rate swaps on certain of its FHLB advances and \$100.0 million notional amount of receive-fixed interest rate swaps on certain commercial loans. These hedges were entered into to manage both interest rate risk and asset sensitivity on the balance sheet. These derivative instruments are recognized on the balance sheet at their fair value.

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At December 31, 2010, the notional amount of the interest rate lock commitments and forward commitments were \$7.7 million and \$9.3 million, respectively. At December 31, 2009, the notional amount of the interest rate lock commitments and forward commitments were \$20.0 million and \$36.1 million, respectively. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitment to fund the loans. All derivative instruments are recognized on the balance sheet at their fair value. Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were \$419.2 million and \$419.2 million, respectively, at December 31, 2010. At December 31, 2009, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were \$479.8 million and \$479.8 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps, foreign exchange forward contracts and commodity swaps and options. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

**Table of Contents**

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

	Asset Derivatives			
	December 31, 2010		December 31, 2009	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments</b>				
Interest rate contracts	Other assets	\$ 4,766	Other assets	\$ 1,789
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 4,766</b>		<b>\$ 1,789</b>
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	Other assets	\$ 28,930	Other assets	\$ 27,749
Commodity contracts	Other assets	132	Other assets	
Foreign exchange contracts	Other assets		Other assets	12
Mortgage contracts	Other assets	254	Other assets	370
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 29,316</b>		<b>\$ 28,131</b>
<b>Total derivatives</b>		<b>\$ 34,082</b>		<b>\$ 29,920</b>

	Liability Derivatives			
	December 31, 2010		December 31, 2009	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments</b>				
Interest rate contracts	Other liabilities	\$	Other liabilities	\$ 1,188
Mortgage contracts	Other liabilities		Other liabilities	
<b>Total derivatives designated as hedging instruments</b>		<b>\$</b>		<b>\$ 1,188</b>
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	Other liabilities	\$ 29,589	Other liabilities	\$ 28,279
Commodity contracts	Other liabilities	132	Other liabilities	
Foreign exchange contracts	Other liabilities		Other liabilities	12
Mortgage contracts	Other liabilities		Other liabilities	
		<b>\$ 29,721</b>		<b>\$ 28,291</b>

**Total derivatives not designated as hedging  
instruments**

Total derivatives	\$ 29,721	\$ 29,479
-------------------	-----------	-----------

**Table of Contents**

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

(dollars in thousands)		<b>Year ended December 31, 2010</b>	<b>Year ended December 31, 2009</b>
<b>Derivatives in Fair Value Hedging Relationships</b>	<b>Location of Gain or (Loss) Recognized in Income on Derivative</b>	<b>Amount of Gain or (Loss) Recognized in Income on Derivative</b>	<b>Amount of Gain or (Loss) Recognized in Income on Derivative</b>
Interest rate contracts (1)	Interest income / (expense)	\$ 3,656	\$ 1,995
Interest rate contracts (2)	Other income / (expense)	1,621	998
Total		\$ 5,277	\$ 2,993
<b>Derivatives in Cash Flow Hedging Relationships</b>	<b>Location of Gain or (Loss) Recognized in Income on Derivative</b>	<b>Amount of Gain or (Loss) Recognized in Income on Derivative</b>	<b>Amount of Gain or (Loss) Recognized in Income on Derivative</b>
Interest rate contracts (1)	Interest income / (expense)	\$ 1,553	\$ 1,259
Total		\$ 1,553	\$ 1,259
<b>Derivatives Not Designated as Hedging Instruments</b>	<b>Location of Gain or (Loss) Recognized in Income on Derivative</b>	<b>Amount of Gain or (Loss) Recognized in Income on Derivative</b>	<b>Amount of Gain or (Loss) Recognized in Income on Derivative</b>
Interest rate contracts (1)	Interest income / (expense)	\$	\$ (428)
Interest rate contracts (3)	Other income / (expense)	(129)	(280)
Mortgage contracts	Mortgage banking revenue	(117)	416
Total		\$ (246)	\$ (292)

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

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

(3) Includes the valuation differences between the customer and offsetting counterparty swaps.

**NOTE 17 COMMITMENTS AND CONTINGENCIES  
LITIGATION**

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

Old National contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, Old National cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, or other relief, if any, might be. Subject to the foregoing, Old National believes, based on current knowledge and after consultation with counsel, that the outcome of

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

In November 2002, several beneficiaries of certain trusts filed a complaint against Old National and Old National Trust Company in the United States District Court for the Western District of Kentucky relating to the administration of the trusts in 1997. The complaint, as amended, alleged that Old National (through a predecessor), as trustee, mismanaged termination of a lease between the trusts and a tenant mining company. The complaint seeks, among other relief, unspecified damages, (costs and expenses, including attorneys' fees, and such other relief as the court might find just and proper.) On March 25, 2009, the Court granted summary judgment to Old National concluding that the plaintiffs do not have standing to sue Old National in this matter. The plaintiffs subsequently filed a motion to alter or amend the judgment with the Court. The Plaintiffs motion to alter or amend the judgment was granted by the Court on July 29, 2009, reversing the Court's March 25, 2009 Order as to standing. The July 29, 2009 Order permitted Old National to file a new motion for summary judgment with respect to issues that had not been resolved by the Court. On December 10, 2009, the Court granted Old National partial summary judgment and also granted a motion by Plaintiffs to amend their complaint. The Court's December 10, 2009 Order permitted Old National to file a new motion for summary judgment on the amended complaint. Old National filed its motion for summary judgment on January 22, 2010, which was granted in part and denied in part on August 6, 2010. The Court has calendared a trial date of February 13, 2012. In addition, the Court has ordered mediation that was rescheduled for March of 2011. Old National continues to believe that it has meritorious defenses to each of the claims in the lawsuit and intends to continue to vigorously defend the lawsuit. There can be no assurance, however, that Old National will be successful, and an adverse resolution of the lawsuit could have a material adverse effect on its consolidated financial position and results of operations in the period in which the lawsuit is resolved. Old National is not presently able to reasonably estimate potential losses, if any, related to the lawsuit and has not recorded a liability in its accompanying Consolidated Balance Sheets.

**Table of Contents**

In November 2010, Old National was named in a class action lawsuit, much like many other banks, challenging Old National Bank's checking account practices. The plaintiff seeks damages and other relief, including restitution. Old National believes it has meritorious defenses to the claims brought by the plaintiff. At this phase of the litigation, it is not possible for management of Old National to determine the probability of a material adverse outcome or reasonably estimate the amount of any loss.

**LEASES**

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

In prior periods, Old National entered into sale leaseback transactions for four office buildings in downtown Evansville, Indiana and eighty-eight financial centers. The properties sold had a carrying value of \$163.6 million. Old National received cash proceeds of approximately \$287.4 million, net of selling costs, resulting in a gain of approximately \$123.9 million. Approximately \$119.5 million of the gain was deferred and is being recognized over the term of the leases. The leases have original terms ranging from five to twenty-four years, and Old National has the right, at its option, to extend the term of certain of the leases for four additional successive terms of five years. Under the lease agreements, Old National is obligated to pay base rents of approximately \$25.4 million per year.

In March 2009, Old National acquired the Indiana retail branch banking network of Citizens Financial Group. The network included 65 leased locations. As of December 31, 2010, Old National had closed 22 of these locations and terminated the leases. The leases have terms of less than one year to ten years. Under the remaining lease agreements, Old National is obligated to pay a base rent of approximately \$2.2 million per year.

Total rental expense was \$31.4 million in 2010, \$29.7 million in 2009 and \$26.5 million in 2008. The following is a summary of future minimum lease commitments as of December 31, 2010:

(dollars in thousands)

2011	\$ 34,527
2012	32,462
2013	31,361
2014	29,998
2015	28,735
Thereafter	296,045
<b>Total</b>	<b>\$ 453,128</b>

**CREDIT-RELATED FINANCIAL INSTRUMENTS**

In the normal course of business, Old National's banking affiliates have entered into various agreements to extend credit, including loan commitments of \$1.106 billion and standby letters of credit of \$74.3 million at December 31, 2010. At December 31, 2010, approximately \$1.064 billion of the loan commitments had fixed rates and \$42 million had floating rates, with the fixed interest rates ranging from 0% to 13.25%. At December 31, 2009, loan commitments were \$1.038 billion and standby letters of credit were \$103.2 million. These commitments are not reflected in the consolidated financial statements. At December 31, 2010 and 2009, the balance of the allowance for credit losses on unfunded loan commitments was \$3.8 million and \$5.5 million, respectively.

**Table of Contents**

At December 31, 2010 and 2009, Old National had credit extensions of \$25.7 million and \$25.9 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients. At December 31, 2010 and 2009, the unsecured portion was \$5.5 million and \$3.1 million respectively.

**NOTE 18 FINANCIAL GUARANTEES**

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At December 31, 2010, the notional amount of standby letters of credit was \$74.3 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.5 million. At December 31, 2009, the notional amount of standby letters of credit was \$103.2 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.6 million.

During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap has a notional amount of \$9.0 million at December 31, 2010.

**NOTE 19 REGULATORY RESTRICTIONS****RESTRICTIONS ON CASH AND DUE FROM BANKS**

Old National's affiliate bank is required to maintain reserve balances on hand and with the Federal Reserve Bank which are interest bearing and unavailable for investment purposes. The reserve balances at December 31 were \$26.0 million in 2010 and \$28.8 million in 2009. In addition, Old National had \$1.1 million and \$9.8 million as of December 31, 2010 and 2009, respectively, in cash and due from banks which was held as collateral for collateralized swap positions.

**RESTRICTIONS ON TRANSFERS FROM AFFILIATE BANK**

Regulations limit the amount of dividends an affiliate bank can declare in any year without obtaining prior regulatory approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. During the first quarter of 2009, Old National Bank received permission to pay a \$40 million dividend. Old National used the cash obtained from the dividend to repurchase the \$100 million of non-voting preferred shares from the U.S. Treasury. As a result of this special dividend, Old National Bank requires approval of regulatory authority for the payment of dividends to Old National. Such approval was obtained for the payment of dividends during 2010 and currently.

**RESTRICTIONS ON THE PAYMENT OF DIVIDENDS**

Old National has traditionally paid a quarterly dividend to common stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on Old National's earnings, capital requirements, financial condition and other factors considered relevant by Old National's Board of Directors. Additionally, the payment of dividends to the preferred shareholders in 2009 had priority over the payment of cash dividends to the common stockholders. On March 31, 2009, Old National repurchased all of the \$100 million of Series T Preferred Stock from the Treasury Department.



**Table of Contents****CAPITAL ADEQUACY**

Old National and Old National Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can elicit certain mandatory actions by regulators that, if undertaken, could have a direct material effect on Old National's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Old National and Old National Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Quantitative measures established by regulation to ensure capital adequacy require Old National and Old National Bank to maintain minimum amounts and ratios as set forth in the following table.

At December 31, 2010, Old National and Old National Bank exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory notification. To be categorized as well-capitalized, Old National Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios. There are no conditions or events since that notification that management believes have changed the institution's category.

The following table summarizes capital ratios for Old National and Old National Bank as of December 31:

(dollars in thousands)	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>2010</b>						
Total capital to risk-weighted assets						
Old National Bancorp	\$ 699,871	14.83%	\$ 377,669	8.00%	\$ N/A	N/A%
Old National Bank	576,533	12.43	370,968	8.00	463,710	10.00
Tier 1 capital to risk-weighted assets						
Old National Bancorp	640,469	13.57	188,835	4.00	N/A	N/A
Old National Bank	518,165	11.17	185,454	4.00	278,226	6.00
Tier 1 capital to average assets						
Old National Bancorp	640,469	9.01	284,226	4.00	N/A	N/A
Old National Bank	518,165	7.37	281,242	4.00	351,552	5.00
<b>2009</b>						
Total capital to risk-weighted assets						
Old National Bancorp	\$ 832,096	16.09%	\$ 413,848	8.00%	\$ N/A	N/A%
Old National Bank	619,864	12.21	406,224	8.00	507,780	10.00
Tier 1 capital to risk-weighted assets						
Old National Bancorp	737,224	14.25	206,924	4.00	N/A	N/A
Old National Bank	526,168	10.36	203,112	4.00	304,668	6.00
Tier 1 capital to average assets						
Old National Bancorp	737,224	9.51	310,210	4.00	N/A	N/A
Old National Bank	526,168	6.97	302,029	4.00	377,536	5.00



**Table of Contents****NOTE 20 PARENT COMPANY FINANCIAL STATEMENTS**

The following are the condensed parent company only financial statements of Old National Bancorp:

**OLD NATIONAL BANCORP (PARENT COMPANY ONLY)****CONDENSED BALANCE SHEETS**

(dollars in thousands)	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Deposits in affiliate bank	\$ 26,653	\$ 22,111
Investment securities available for sale	976	445
Investment in affiliates:		
Banking subsidiaries	703,949	661,272
Non-banks	45,330	47,762
Advances to affiliates	45,177	196,029
Other assets	83,026	95,451
<b>Total assets</b>	<b>\$ 905,111</b>	<b>\$ 1,023,070</b>
<b>Liabilities and Shareholders Equity</b>		
Other liabilities	\$ 18,342	\$ 21,970
Other borrowings	7,964	157,274
Shareholders equity	878,805	843,826
<b>Total liabilities and shareholders equity</b>	<b>\$ 905,111</b>	<b>\$ 1,023,070</b>

**OLD NATIONAL BANCORP (PARENT COMPANY ONLY)****CONDENSED STATEMENTS OF INCOME**

(dollars in thousands)	<b>Years Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Income</b>			
Dividends from affiliates	\$ 27,744	\$ 94,958	\$ 92,700
Net securities gains		666	
Other income	1,020	647	2,493
Other income from affiliates	435	869	92
<b>Total income</b>	<b>29,199</b>	<b>97,140</b>	<b>95,285</b>
<b>Expense</b>			
Interest on borrowings	9,165	11,618	15,331
Other expenses	11,672	10,222	7,798
<b>Total expense</b>	<b>20,837</b>	<b>21,840</b>	<b>23,129</b>
Income before income taxes and equity in undistributed earnings of affiliates	8,362	75,300	72,156
Income tax benefit	(7,833)	(8,063)	(9,358)
<b>Income before equity in undistributed earnings of affiliates</b>	<b>16,195</b>	<b>83,363</b>	<b>81,514</b>

Equity in undistributed earnings of affiliates	<b>22,019</b>		
Dividends receivable from affiliates in excess of earnings		(69,626)	(19,036)
Net Income	<b>\$ 38,214</b>	<b>\$ 13,737</b>	<b>\$ 62,478</b>

**Table of Contents****OLD NATIONAL BANCORP (PARENT COMPANY ONLY)  
CONDENSED STATEMENT OF CASH FLOWS**

(dollars in thousands)	Years Ended December 31,		
	2010	2009	2008
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 38,214	\$ 13,737	\$ 62,478
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	49	67	106
Net premium (discount) on investment securities		434	
Net securities (gains) losses		(663)	
Stock option expense	253	392	407
Restricted stock expense	2,116	918	1,597
Net losses on sales and write-downs of premises and equipment			
(Increase) decrease in other assets	13,064	(6,302)	(6,479)
(Decrease) increase in other liabilities	(3,414)	2,450	(504)
Equity in undistributed earnings of affiliates	(22,019)		
Dividends received from affiliates in excess of earnings		69,626	19,036
Total adjustments	(9,951)	66,922	14,163
Net cash flows provided by operating activities	28,263	80,659	76,641
<b>Cash Flows From Investing Activities</b>			
Transfer subsidiary from parent to bank subsidiary	791		
Purchases of investment securities available-for-sale	(500)	(191,994)	(296)
Proceeds from sales of investment securities available-for-sale		192,222	
Net payments from (advances to) affiliates	150,852	(145,989)	(50,039)
Purchases of premises and equipment	(7)		(82)
Net cash flows provided by (used in) investing activities	151,136	(145,761)	(50,417)
<b>Cash Flows From Financing Activities</b>			
Payments related to retirement of debt	(150,000)		
Payments for maturities on other borrowings			(100,000)
Cash dividends paid on common stock	(24,361)	(30,380)	(60,801)
Cash dividends paid on preferred stock		(1,514)	
Common stock repurchased	(705)	(353)	(457)
Proceeds from issuance of TARP preferred stock and warrants			99,885
Repurchase of TARP preferred stock and warrants		(101,200)	
Common stock reissued under stock option, restricted stock and stock purchase plans	12	97	1,940
Common stock issued	197	197,756	
Net cash flows provided by (used in) financing activities	(174,857)	64,406	(59,433)
Net increase (decrease) in cash and cash equivalents	4,542	(696)	(33,209)

Cash and cash equivalents at beginning of period	<b>22,111</b>	22,807	56,016
<b>Cash and cash equivalents at end of period</b>	<b>\$ 26,653</b>	\$ 22,111	\$ 22,807

**NOTE 21 SEGMENT INFORMATION**

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

**Table of Contents**

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

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

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

Summarized financial information concerning segments is shown in the following table for the years ended December 31.

**SEGMENT INFORMATION**

(dollars in thousands)	<b>Community Banking</b>	<b>Treasury</b>	<b>Other</b>	<b>Total</b>
<b>2010</b>				
Net interest income	\$ 252,519	\$ (30,378)	\$ (3,725)	\$ 218,416
Provision for loan losses	30,806		(25)	30,781
Noninterest income	88,037	17,871	64,242	170,150
Noninterest expense	236,642	13,803	63,860	314,305
Income (loss) before income taxes	73,108	(26,310)	(3,318)	43,480
Total assets	3,759,529	3,396,189	108,174	7,263,892
<b>2009</b>				
Net interest income	\$ 287,404	\$ (47,490)	\$ (8,515)	\$ 231,399
Provision for loan losses	63,284	126	(130)	63,280
Noninterest income	94,132	5,422	63,906	163,460
Noninterest expense	270,249	7,878	60,829	338,956
Income (loss) before income taxes	48,003	(50,072)	(5,308)	(7,377)
Total assets	4,487,007	3,401,958	116,370	8,005,335
<b>2008</b>				
Net interest income	\$ 259,009	\$ (13,337)	\$ (2,347)	\$ 243,325
Provision for loan losses	51,024	440		51,464
Noninterest income	83,181	14,918	68,870	166,969
Noninterest expense	226,272	3,498	67,459	297,229
Income (loss) before income taxes	64,894	(2,357)	(936)	61,601
Total assets	4,959,736	2,802,889	111,265	7,873,890

The 2010 community banking segment profit increased \$25.1 million from 2009 levels, primarily as a result of a decrease in provision for loan loss expense and lower FDIC assessment expense. The 2010 treasury segment profit increased \$23.8 million from 2009 primarily as a result of the \$20.9 million decrease in other-than-temporary-impairment in 2010. The 2010 other segment profit increased approximately \$2.0 million from 2009 primarily as a result of lower expenses in the insurance agency area.

**Table of Contents****NOTE 22 INTERIM FINANCIAL DATA (UNAUDITED)**

The following table details the quarterly results of operations for the years ended December 31, 2010 and 2009.

**INTERIM FINANCIAL DATA**

(unaudited, dollars and shares in thousands, except per share data)	Quarters Ended 2010				Quarters Ended 2009			
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
Interest income	\$ 70,965	\$ 72,945	\$ 75,596	\$ 77,342	\$ 80,090	\$ 83,422	\$ 89,182	\$ 87,983
Interest expense	16,988	18,777	20,442	22,225	25,067	27,011	28,415	28,785
Net interest income	53,977	54,168	55,154	55,117	55,023	56,411	60,767	59,198
Provision for loan losses	7,100	6,400	8,000	9,281	21,821	12,191	11,968	17,300
Noninterest income	42,205	41,979	42,974	42,992	36,616	39,003	45,606	42,235
Noninterest expense	83,272	76,102	77,871	77,060	90,775	83,966	86,751	77,464
Income (loss) before income taxes	5,810	13,645	12,257	11,768	(20,957)	(743)	7,654	6,669
Income tax expense (benefit)	84	1,749	1,734	1,699	(11,637)	(4,760)	(1,981)	(2,736)
Net income (loss)	5,726	11,896	10,523	10,069	(9,320)	4,017	9,635	9,405
Preferred stock dividends and discount accretion								(3,892)
Net income (loss) attributable to common stockholders	\$ 5,726	\$ 11,896	\$ 10,523	\$ 10,069	\$ (9,320)	\$ 4,017	\$ 9,635	\$ 5,513
Net income (loss) per share:								
Basic	\$ 0.07	\$ 0.13	\$ 0.12	\$ 0.12	\$ (0.11)	\$ 0.06	\$ 0.15	\$ 0.08
Diluted	0.07	0.13	0.12	0.12	(0.11)	0.06	0.15	0.08
Average shares								
Basic	86,804	86,795	86,786	86,752	86,701	66,635	65,950	65,793
Diluted	87,005	86,931	86,911	86,797	86,701	66,706	65,999	65,882

Interest income and interest expense decreased in 2010 primarily due to the lower interest rate environment.

The lower provision for loan losses in 2010 is primarily attributable to the decrease in net charge-offs. During the fourth quarter of 2009 we recorded a charge-off of \$12.0 million related to a single commercial loan.

Noninterest expense decreased in 2010 primarily due to decreases in salaries and benefits expense, marketing expense, FDIC assessment expense and other noninterest expenses. Income taxes increased in 2010 because tax-exempt income comprised a lower percentage of total income and pre-tax income was higher than in 2009.



**Table of Contents**

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

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

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

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

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

Changes in Internal Control over Financial Reporting. There were no changes in Old National's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, Old National's internal control over financial reporting.

Refer to Item 8 for Management's Report on Internal Control over Financial Reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**Table of Contents**

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2010. The applicable information appearing in the Proxy Statement for the 2011 annual meeting is incorporated by reference.

Old National has adopted a code of ethics that applies to directors, officers, and all other employees including Old National's principal executive officer, principal financial officer and principal accounting officer. The text of the code of ethics is available on Old National's Internet website at [www.oldnational.com](http://www.oldnational.com) or in print to any shareholder who requests it. Old National intends to post information regarding any amendments to, or waivers from, its code of ethics on its Internet website.

**ITEM 11. EXECUTIVE COMPENSATION**

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2010. The applicable information appearing in our Proxy Statement for the 2011 annual meeting is incorporated by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

This information is omitted from this report, (with the exception of the Equity Compensation Plan Information, which is reported in Item 5 of this report and is incorporated herein by reference) pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2010. The applicable information appearing in the Proxy Statement for the 2011 annual meeting is incorporated by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2010. The applicable information appearing in the Proxy Statement for the 2011 annual meeting is incorporated by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2010. The applicable information appearing in the Proxy Statement for the 2011 annual meeting is incorporated by reference.

**Table of Contents**

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

1. Financial Statements:

The following consolidated financial statements of the registrant and its subsidiaries are filed as part of this document under Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets December 31, 2010 and 2009  
Consolidated Statements of Income Years Ended December 31, 2010, 2009 and 2008  
Consolidated Statements of Changes in Shareholders Equity Years Ended December 31, 2010, 2009 and 2008  
Consolidated Statements of Cash Flows Years Ended December 31, 2010, 2009 and 2008  
Notes to Consolidated Financial Statements

Exhibit  
Number

- 2 Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession
- 2.1 Purchase and Assumption Agreement dated November 24, 2008 by and among Old National Bancorp, Old National Bank and RBS Citizens, National Association (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 25, 2008) and amended on March 20, 2009 (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2009).
- 2.2 Agreement and Plan of Merger dated as of October 5, 2010 by and among Old National Bancorp and Monroe Bancorp (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 6, 2010).
- 3.1 Articles of Incorporation of Old National, amended December 10, 2008 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008).
- 3.2 By-Laws of Old National, amended July 23, 2009 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009).

**Table of Contents**

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

Edgar Filing: OLD NATIONAL BANCORP /IN/ - Form 10-K

Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*

- (f) Third Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(f) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*
- (g) 2005 Executive Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(g) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*

**Table of Contents**

Exhibit  
Number

- (h) Summary of Old National Bancorp's Outside Director Compensation Program (incorporated by reference to Old National's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).\*
- (i) Form of Executive Stock Option Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(h) of Old National's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).\*
- (j) Form of 2006 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).\*
- (k) Form of 2006 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).\*
- (l) Form of 2006 Non-qualified Stock Option Agreement (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).\*
- (m) Form of 2007 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(w) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).\*
- (n) Form of 2007 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(x) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).\*
- (o) Form of 2007 Non-qualified Stock Option Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(y) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).\*
- (p) Lease Agreement, dated December 20, 2006 between ONB One Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(aa) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).
- (q) Lease Agreement, dated December 20, 2006 between ONB 123 Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ab) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).
- (r) Lease Agreement, dated December 20, 2006 between ONB 4<sup>th</sup> Street Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ac) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).
- (s) Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, and Old National Bank (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).

- (t) Lease Supplement No. 1 dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, Old National Bank and ONB Insurance Group, Inc. (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
- (u) Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #2, LLC, and Old National Bank (incorporated by reference to Exhibit 99.4 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).

**Table of Contents**

Exhibit  
Number

- (v) Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #3, LLC, and Old National Bank (incorporated by reference to Exhibit 99.5 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
- (w) Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #4, LLC, and Old National Bank (incorporated by reference to Exhibit 99.6 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
- (x) Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #5, LLC, and Old National Bank (incorporated by reference to Exhibit 99.7 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
- (y) Form of Lease Agreement dated October 19, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2007).
- (z) Form of Lease Agreement dated December 27, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (as incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 31, 2007).
- (aa) Form of 2008 Non-qualified Stock Option Award Agreement (incorporated by reference to Exhibit 99.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).\*
- (ab) Form of 2008 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).\*
- (ac) Form of 2008 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).\*
- (ad) Old National Bancorp 2008 Incentive Compensation Plan (incorporated by reference to Appendix II of Old National's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 27, 2008).\*
- (ae) Old National Bancorp Code of Conduct (incorporated by reference to Exhibit 14.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 29, 2008).
- (af) Letter Agreement dated December 12, 2008 by and between Old National Bancorp and the United States Department of Treasury which includes the Securities Purchase Agreement Standard Terms (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008).



- (ag) Form of 2009 Performance Share Award Agreement Internal Performance Measures between Old National and certain key associates (incorporated by reference to Old National's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).\*
- (ah) Form of 2009 Performance Share Award Agreement Relative Performance Measures between Old National and certain key associates (incorporated by reference to Old National's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).\*
- (ai) Form of 2009 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Old National's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).\*

**Table of Contents**

Exhibit  
Number

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

- (au) Form of Employment Agreement for Barbara A. Murphy, Christopher A. Wolking, Allen R. Mounts and Daryl D. Moore (incorporated by reference to Exhibit 10.2 of Old National's Current Report on Form 8-K with the Securities and Exchange Commission on January 27, 2011).\*
- (av) Form of 2011 Performance Share Award Agreement Internal Performance Measures between Old National and certain key associates is filed herewith.\*
- (aw) Form of 2011 Performance Share Award Agreement Relative Performance Measures between Old National and certain key associates is filed herewith.\*

**Table of Contents**

Exhibit Number	
(ax)	Form of 2011 Service Based Restricted Stock Award Agreement between Old National and certain key associates is filed herewith.*
21	Subsidiaries of Old National Bancorp
23.1	Consent of Crowe Horwath LLP
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Old National Bancorp's Annual Report on Form 10-K Report for the year ended December 31, 2010, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Changes in Shareholders Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.**

\* Management contract or compensatory plan or arrangement

\*\* Furnished, not filed

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Old National has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OLD NATIONAL BANCORP

By: /s/ Robert G. Jones

Date: February 25, 2011

Robert G. Jones,  
President and Chief Executive  
Officer  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 25, 2011, by the following persons on behalf of Old National and in the capacities indicated.

By: /s/ Joseph D. Barnette, Jr.

By: /s/ Robert G. Jones

Joseph D. Barnette, Jr., Director

Robert G. Jones,  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Alan W. Braun

By: /s/ Marjorie Z. Soyugenc

Alan W. Braun, Director

Marjorie Z. Soyugenc, Director

By: /s/ Larry E. Dunigan

By: /s/ Kelly N. Stanley

Larry E. Dunigan,  
Chairman of the Board of Directors

Kelly N. Stanley, Director

By: /s/ Arthur H. McElwee Jr.

By: /s/ Linda E. White

Arthur H. McElwee Jr., Director

Linda E. White, Director

By: /s/ Niel C. Ellerbrook

By: /s/ Christopher A. Wolking

Niel C. Ellerbrook, Director

Christopher A. Wolking,  
Senior Executive Vice President  
Financial Officer (Principal Financial Officer)

By: /s/ Andrew E. Goebel

Andrew E. Goebel, Director

By: /s/ Phelps L. Lambert

By: /s/ Joan M. Kissel

Phelps L. Lambert, Director

Joan M. Kissel,  
Senior Vice President and Corporate Controller  
(Principal Accounting Officer)

By: /s/ James T. Morris

James T. Morris, Director