OLD NATIONAL BANCORP /IN/
Form 10-Q
August 03, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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

For the transition period from to

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of Registrant as specified in its charter)

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

(812) 464-1294

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock. The Registrant has one class of common stock (no par value) with 94,687,000 shares outstanding at June 30, 2012.

Table of Contents

OLD NATIONAL BANCORP

FORM 10-Q

INDEX

Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	June 30, 2012 (unaudited)	December 31, 2011	June 30, 2011 (unaudited)
Assets			
Cash and due from banks	**$ 165,093**	$ 191,626	$ 139,821
Money market and other interest-earning investments	**97,953**	31,246	195,796
Total cash and cash equivalents	**263,046**	222,872	335,617
Trading securities at fair value	**2,918**	2,816	2,916
Investment securities available-for-sale, at fair value			
U.S. Treasury	**15,598**	65,769	62,746
U.S. Government-sponsored entities and agencies	**347,289**	173,185	387,211
Mortgage-backed securities	**1,214,689**	1,268,155	1,207,624
States and political subdivisions	**462,065**	402,844	368,421
Other securities	**168,621**	161,323	176,853
Total investment securities available-for-sale	**2,208,262**	2,071,276	2,202,855
Investment securities held-to-maturity, at amortized cost (fair value $493,704, $507,699 and $574,174 respectively)	**463,935**	484,590	567,708
Federal Home Loan Bank stock, at cost	**30,835**	30,835	19,673
Residential loans held for sale, at fair value	**4,366**	4,528	6,104
Loans:			
Commercial	**1,205,532**	1,216,654	1,269,607
Commercial real estate	**1,042,581**	1,067,370	1,170,401
Residential real estate	**1,122,800**	995,458	795,442
Consumer credit, net of unearned income	**855,386**	861,361	881,891
Covered loans, net of discount	**489,331**	626,360	
Total loans	**4,715,630**	4,767,203	4,117,341
Allowance for loan losses	**(50,424)**	(57,117)	(70,189)
Allowance for loan losses covered loans	**(4,336)**	(943)	
Net loans	**4,660,870**	4,709,143	4,047,152
FDIC indemnification asset	**127,717**	147,566	
Premises and equipment, net	**71,823**	71,870	65,915
Accrued interest receivable	**44,163**	44,801	42,600
Goodwill	**253,177**	253,177	236,313
Other intangible assets	**30,205**	33,624	34,114
Company-owned life insurance	**251,676**	248,693	245,841
Assets held for sale	**12,784**	16,861	
Other real estate owned and repossessed personal property	**10,765**	7,119	9,875
Other real estate owned covered	**22,170**	30,443	
Other assets	**230,844**	229,469	202,165
Total assets	**$ 8,689,556**	$ 8,609,683	$ 8,018,848
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 1,847,904**	$ 1,728,546	$ 1,504,632

Interest-bearing:			
NOW	**1,603,669**	1,569,084	1,332,961
Savings	**1,683,777**	1,570,422	1,304,172
Money market	**283,092**	295,847	315,344
Time	**1,251,831**	1,447,664	1,557,978
Total deposits	**6,670,273**	6,611,563	6,015,087
Short-term borrowings	**346,000**	424,849	305,205
Other borrowings	**273,714**	290,774	440,470
Accrued expenses and other liabilities	**325,842**	248,941	249,812
Total liabilities	**7,615,829**	7,576,127	7,010,574
Shareholders Equity			
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding			
Common stock, $1 stated value, 150,000 shares authorized, 94,687, 94,654 and 94,752 shares issued and outstanding, respectively	**94,687**	94,654	94,752
Capital surplus	**835,028**	834,033	832,942
Retained earnings	**121,670**	89,865	64,178
Accumulated other comprehensive income, net of tax	**22,342**	15,004	16,402
Total shareholders equity	**1,073,727**	1,033,556	1,008,274
Total liabilities and shareholders equity	**$ 8,689,556**	$ 8,609,683	$ 8,018,848

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

3

Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars and shares in thousands, except per share data)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest Income				
Loans including fees:				
Taxable	**$ 62,911**	$ 52,047	**$ 125,041**	$ 102,352
Nontaxable	**2,228**	2,335	**4,447**	4,657
Investment securities, available-for-sale:				
Taxable	**11,316**	12,875	**22,660**	26,533
Nontaxable	**3,905**	3,320	**7,485**	6,841
Investment securities, held-to-maturity, taxable	**4,894**	6,140	**9,869**	12,552
Money market and other interest-earning investments	**10**	155	**25**	254
Total interest income	**85,264**	76,872	**169,527**	153,189
Interest Expense				
Deposits	**7,044**	9,585	**14,726**	19,588
Short-term borrowings	**118**	114	**245**	258
Other borrowings	**2,129**	4,854	**4,310**	9,657
Total interest expense	**9,291**	14,553	**19,281**	29,503
Net interest income	**75,973**	62,319	**150,246**	123,686
Provision for loan losses	**393**	3,207	**2,449**	6,519
Net interest income after provision for loan losses	**75,580**	59,112	**147,797**	117,167
Noninterest Income				
Wealth management fees	**5,844**	5,327	**10,940**	10,427
Service charges on deposit accounts	**12,904**	12,464	**25,766**	24,014
ATM fees	**5,895**	6,079	**12,228**	11,970
Mortgage banking revenue	**773**	909	**1,332**	1,861
Insurance premiums and commissions	**9,311**	9,011	**18,925**	19,581
Investment product fees	**3,163**	2,933	**6,094**	5,527
Company-owned life insurance	**1,512**	1,298	**3,007**	2,470
Net securities gains	**6,992**	666	**7,611**	2,165
Total other-than-temporary impairment losses	**(780)**	(1,433)	**(876)**	(1,732)
Loss recognized in other comprehensive income		1,233		1,233
Impairment losses recognized in earnings	**(780)**	(200)	**(876)**	(499)
Gain on derivatives	**249**	221	**431**	553
Gain on sale leaseback transactions	**1,606**	1,637	**3,213**	3,273
Change in FDIC indemnification asset	**(4,005)**		**759**	
Other income	**5,078**	3,244	**8,245**	5,068
Total noninterest income	**48,542**	43,589	**97,675**	86,410
Noninterest Expense				
Salaries and employee benefits	**46,751**	43,084	**92,797**	87,605
Occupancy	**13,256**	12,196	**25,716**	24,498

Equipment	**2,967**	2,845	**5,823**	5,842
Marketing	**1,495**	1,582	**2,937**	2,899
Data processing	**5,934**	5,770	**11,403**	11,835
Communication	**2,602**	2,644	**5,426**	4,978
Professional fees	**2,630**	2,134	**5,354**	4,557
Loan expense	**1,528**	1,125	**3,136**	2,212
Supplies	**609**	932	**1,367**	1,545
FDIC assessment	**1,379**	1,773	**2,774**	3,964
Other real estate owned expense	**1,576**	764	**11,383**	1,102
Amortization of intangibles	**1,911**	1,838	**3,932**	3,762
Other expense	**3,389**	3,071	**5,266**	4,884
Total noninterest expense	**86,027**	79,758	**177,314**	159,683
Income before income taxes	**38,095**	22,943	**68,158**	43,894
Income tax expense	**10,889**	5,927	**19,229**	10,445
Net income	**$ 27,206**	$ 17,016	**$ 48,929**	$ 33,449
Net income per common share basic	**$ 0.29**	$ 0.18	**$ 0.52**	$ 0.35
Net income per common share diluted	**0.29**	0.18	**0.52**	0.35
Weighted average number of common shares outstanding-basic	**94,514**	94,479	**94,479**	94,456
Weighted average number of common shares outstanding-diluted	**94,871**	94,701	**94,847**	94,674
Dividends per common share	**$ 0.09**	$ 0.07	**$ 0.18**	$ 0.14

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

4

Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(dollars in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	**$ 27,206**	$ 17,016	**$ 48,929**	$ 33,449
Other comprehensive income				
Change in securities available-for-sale:				
Unrealized holding gains for the period	11,221	22,769	17,461	31,292
Reclassification adjustment for securities gains realized in income	(6,992)	(666)	(7,611)	(2,165)
Other-than-temporary-impairment on available-for-sale securities recorded in other comprehensive income		(1,233)		(1,233)
Other-than-temporary-impairment on available-for-sale securities associated with credit loss realized in income	780	200	876	499
Income tax effect	(1,859)	(8,371)	(4,175)	(11,053)
Unrealized gains on available-for-sale securities	**3,150**	12,699	**6,551**	17,340
Change in securities held-to-maturity:				
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	(231)	(474)	(461)	(967)
Income tax effect	92	190	184	387
Changes from securities held-to-maturity	(139)	(284)	(277)	(580)
Cash flow hedges:				
Net unrealized derivative gains (losses) on cash flow hedges		(291)	(240)	(609)
Reclassification adjustment on cash flow hedges		72		144
Income tax effect		88	96	187
Changes from cash flow hedges		(131)	(144)	(278)
Defined benefit pension plans:				
Amortization of net loss recognized in income	1,007	1,080	2,014	1,983
Income tax effect	(403)	(432)	(806)	(794)
Changes from defined benefit pension plans	604	648	1,208	1,189
Other comprehensive income, net of tax	**3,615**	12,932	**7,338**	17,671
Comprehensive income	**$ 30,821**	$ 29,948	**$ 56,267**	$ 51,120

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 (unaudited)

(dollars and shares in thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance, December 31, 2010	$ 87,183	$ 748,873	$ 44,018	$ (1,269)	$ 878,805
Comprehensive income					
Net income			33,449		33,449
Other comprehensive income					
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				17,340	17,340
Transferred securities, net of tax				(580)	(580)
Reclassification adjustment on cash flows hedges, net of tax				(278)	(278)
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax				1,189	1,189
Acquisition Monroe Bancorp	7,575	82,495			90,070
Dividends common stock			(13,263)		(13,263)
Common stock issued	10	101			111
Common stock repurchased	(32)	(301)			(333)
Stock based compensation expense		1,539			1,539
Stock activity under incentive comp plans	16	235	(26)		225
Balance, June 30, 2011	$ 94,752	$ 832,942	$ 64,178	$ 16,402	$ 1,008,274
Balance, December 31, 2011	**$ 94,654**	**$ 834,033**	**$ 89,865**	**$ 15,004**	**$ 1,033,556**
Comprehensive income					
Net income			**48,929**		**48,929**
Other comprehensive income					
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				**6,551**	**6,551**
Transferred securities, net of tax				**(277)**	**(277)**
Reclassification adjustment on cash flows hedges, net of tax				**(144)**	**(144)**
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax				**1,208**	**1,208**
Dividends common stock			**(17,023)**		**(17,023)**
Common stock issued	**10**	**113**			**123**
Common stock repurchased	**(55)**	**(631)**			**(686)**
Stock based compensation expense		**1,344**			**1,344**
Stock activity under incentive comp plans	**78**	**169**	**(101)**		**146**
Balance, June 30, 2012	**$ 94,687**	**$ 835,028**	**$ 121,670**	**$ 22,342**	**$ 1,073,727**

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

Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Six Months Ended June 30, 2012	2011
Cash Flows From Operating Activities		
Net income	**$ 48,929**	$ 33,449
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**5,008**	5,112
Amortization and impairment of other intangible assets	**3,932**	3,762
Net premium amortization on investment securities	**7,439**	4,242
Accretion of FDIC indemnification asset	**(759)**	
Stock compensation expense	**1,344**	1,539
Provision for loan losses	**2,449**	6,519
Net securities gains	**(7,611)**	(2,165)
Impairment on available-for-sale securities	**876**	499
Gain on sale leasebacks	**(3,213)**	(3,273)
Gain on derivatives	**(431)**	(553)
Net (gains) losses on sales and write-downs of loans and other assets	**301**	(879)
Increase in cash surrender value of company owned life insurance	**(2,983)**	(2,443)
Residential real estate loans originated for sale	**(30,118)**	(51,273)
Proceeds from sale of residential real estate loans	**30,654**	56,524
Decrease in interest receivable	**638**	2,175
Decrease in other real estate owned	**4,627**	4,705
(Increase) decrease in other assets	**(17,794)**	8,263
Increase in accrued expenses and other liabilities	**81,690**	47,072
Total adjustments	**76,049**	79,826
Net cash flows provided by operating activities	**124,978**	113,275
Cash Flows From Investing Activities		
Cash and cash equivalents of acquired banks		83,604
Purchases of investment securities available-for-sale	**(546,146)**	(446,971)
Purchase of trust assets		(1,301)
Proceeds from the call/repurchase of FHLB stock		14,587
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**340,782**	282,800
Proceeds from sales of investment securities available-for-sale	**80,176**	91,372
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**18,541**	73,936
Proceeds from sale of loans	**2,242**	4,743
Reimbursements under FDIC loss share agreements	**32,433**	
Net principal collected from loan customers	**43,582**	59,766
Proceeds from sale of premises and equipment and other assets	**3,434**	342
Purchases of premises and equipment and other assets	**(5,061)**	(2,552)
Net cash flows provided by (used in) investing activities	**(30,017)**	160,326
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Deposits	**58,710**	(101,899)
Short-term borrowings	**(78,849)**	(55,556)

Payments for maturities on other borrowings	**(1,072)**	(403)
Payments related to retirement of debt	**(16,000)**	(18,333)
Cash dividends paid on common stock	**(17,023)**	(13,263)
Common stock repurchased	**(686)**	(333)
Proceeds from exercise of stock options, including tax benefit	**10**	140
Common stock issued	**123**	111
Net cash flows used in financing activities	**(54,787)**	(189,536)
Net increase in cash and cash equivalents	**40,174**	84,065
Cash and cash equivalents at beginning of period	**222,872**	251,552
Cash and cash equivalents at end of period	**$ 263,046**	$ 335,617
Supplemental cash flow information:		
Total interest paid	**$ 20,602**	$ 30,007
Total taxes paid (net of refunds)	**$ 6,369**	$ 4,605

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

Table of Contents

OLD NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, acquired impaired loans, valuation and impairment of securities, goodwill and intangibles, derivative financial instruments, and income taxes are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of June 30, 2012 and 2011, and December 31, 2011, and the results of its operations for the three and six months ended June 30, 2012 and 2011. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National s Annual Report for the year ended December 31, 2011.

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

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

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

FASB ASC 220 In June 2011, the FASB issued an update (ASU No. 2011-05, Presentation of Comprehensive Income) impacting FASB ASC 220, Comprehensive Income. The amendments in this update eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. An entity will have the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. An entity will be required to present on the face of financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income. This update and ASC No. 2011-12, which defers a portion of this guidance, became effective for the Company for interim and annual reporting periods beginning after December 15, 2011 and did not have a material impact on the consolidated financial statements.

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

Table of Contents

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

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

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

NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY

Integra Bank N.A.

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

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

Table of Contents

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

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

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

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

Divestiture

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

Table of Contents

Trust Business of Integra Bank

On June 1, 2011, Old National Bancorp s wholly owned trust subsidiary, American National Trust and Investment Management Company d/b/a Old National Trust Company (ONTC), acquired the trust business of Integra Bank, N.A. in a transaction unrelated to the previously noted FDIC transaction. As of the closing, the trust business had approximately $328 million in assets under management. This transaction brings the total assets under management by Old National's Wealth Management division to approximately $4.4 billion. Old National paid Integra $1.3 million in an all cash transaction and recorded acquisition-related costs of $126 thousand. Old National recorded $1.3 million of customer relationship intangible assets which will be amortized on an accelerated basis over 12 years and is included in the Other segment, as described in Note 20 of the consolidated financial statement footnotes.

Monroe Bancorp

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

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

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

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

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

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

Table of Contents

Indiana Community Bancorp

On January 25, 2012, Old National announced its agreement to acquire Indiana Community Bancorp in an all stock transaction. Indiana Community Bancorp is an Indiana bank holding company with Indiana Bank and Trust Company (IBTC) as its wholly owned subsidiary. Headquartered in Columbus, Indiana, IBTC has 17 full-service banking centers serving the South Central Indiana area and approximately $985 million in assets. The acquisition increases Old National s position as the third largest branch network in Indiana. Pursuant to the merger agreement, the shareholders of Indiana Community Bancorp will receive 1.90 shares of Old National Bancorp common stock for each share of Indiana Community Bancorp common stock, subject to certain adjustments. The transaction is valued at approximately $79.2 million. On July 24, 2012, the shareholders of Indiana Community Bancorp approved the merger of the corporation into Old National Bancorp. The transaction is expected to close in the third quarter of 2012 subject to approval by federal and state regulatory authorities.

NOTE 4 NET INCOME PER SHARE

The following table reconciles basic and diluted net income per share for the three and six months ended June 30:

(dollars and shares in thousands, except per share data)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011
Basic Earnings Per Share		
Net income	**$ 27,206**	$ 17,016
Weighted average common shares outstanding	**94,514**	94,479
Basic Earnings Per Share	**$ 0.29**	$ 0.18
Diluted Earnings Per Share		
Net income	**$ 27,206**	$ 17,016
Weighted average common shares outstanding	**94,514**	94,479
Effect of dilutive securities:		
Restricted stock (1)	**339**	203
Stock options (2)	**18**	19
Weighted average shares outstanding	**94,871**	94,701
Diluted Earnings Per Share	**$ 0.29**	$ 0.18

Table of Contents

(dollars and shares in thousands, except per share data)	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Basic Earnings Per Share		
Net income	**$ 48,929**	$ 33,449
Weighted average common shares outstanding	**94,479**	94,456
Basic Earnings Per Share	**$ 0.52**	$ 0.35
Diluted Earnings Per Share		
Net income	**$ 48,929**	$ 33,449
Weighted average common shares outstanding	**94,479**	94,456
Effect of dilutive securities:		
Restricted stock (1)	**350**	194
Stock options (2)	**18**	24
Weighted average shares outstanding	**94,847**	94,674
Diluted Earnings Per Share	**$ 0.52**	$ 0.35

(1) 0 and 1 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share for the second quarter ended June 30, 2012 and 2011, respectively, because the effect would be antidilutive. 1 and 87 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share for the six months ended June 30, 2012 and 2011, respectively, because the effect would be antidilutive.

(2) Options to purchase 3,113 shares and 4,606 shares outstanding at June 30, 2012 and 2011, respectively, were not included in the computation of net income per diluted share for the second quarter ended June 30, 2012 and 2011, respectively, because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive. Options to purchase 3,106 and 4,606 shares outstanding at June 30, 2012 and 2011, respectively, were not included in the computation of net income per diluted share for the six months ended June 30, 2012 and 2011, respectively, because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

Table of Contents

NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME

The following tables summarize the changes within each classification of accumulated other comprehensive income (AOCI) net of tax for the six months ended June 30, 2012 and 2011:

(dollars in thousands)	AOCI at December 31, 2011	Other Comprehensive Income	AOCI at June 30, 2012
Unrealized gains on available-for-sale securities	**$ 53,911**	**$ 6,551**	**$ 60,462**
Unrealized losses on securities for which other-than-temporary-impairment has been recognized	**(29,299)**		**(29,299)**
Unrealized gains (losses) on held-to-maturity securities	**4,745**	**(277)**	**4,468**
Unrecognized gain (loss) on cash flow hedges	**145**	**(144)**	**1**
Defined benefit pension plans	**(14,498)**	**1,208**	**(13,290)**
Accumulated other comprehensive income (loss)	**$ 15,004**	**$ 7,338**	**$ 22,342**

(dollars in thousands)	AOCI at December 31, 2010	Other Comprehensive Income	AOCI at June 30, 2011
Unrealized gains on available-for-sale securities	$ 31,962	$ 18,093	$ 50,055
Unrealized losses on securities for which other-than-temporary-impairment has been recognized	(28,173)	(753)	(28,926)
Unrealized gains (losses) on held-to-maturity securities	5,667	(580)	5,087
Unrecognized gain on cash flow hedges	846	(278)	568
Defined benefit pension plans	(11,571)	1,189	(10,382)
Accumulated other comprehensive income (loss)	$ (1,269)	$ 17,671	$ 16,402

Table of Contents

NOTE 6 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at June 30, 2012 and December 31, 2011 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2012				
Available-for-sale				
U.S. Treasury	**$ 15,166**	**$ 432**	**$**	**$ 15,598**
U.S. Government-sponsored entities and agencies	**345,161**	**2,183**	**(55)**	**347,289**
Mortgage-backed securities Agency	**1,109,721**	**31,384**	**(163)**	**1,140,942**
Mortgage-backed securities Non-agency	**76,805**	**514**	**(3,572)**	**73,747**
States and political subdivisions	**431,989**	**30,604**	**(528)**	**462,065**
Pooled trust preferrred securities	**25,294**		**(16,834)**	**8,460**
Other securities	**151,749**	**9,942**	**(1,530)**	**160,161**
Total available-for-sale securities	**$ 2,155,885**	**$ 75,059**	**$ (22,682)**	**$ 2,208,262**
Held-to-maturity				
U.S. Government-sponsored entities and agencies	**$ 175,568**	**$ 11,662**	**$**	**$ 187,230**
Mortgage-backed securities Agency	**69,537**	**2,797**		**72,334**
States and political subdivisions	**215,836**	**15,311**	**(1)**	**231,146**
Other securities	**2,994**			**2,994**
Total held-to-maturity securities	**$ 463,935**	**$ 29,770**	**$ (1)**	**$ 493,704**
December 31, 2011				
Available-for-sale				
U.S. Treasury	$ 65,221	$ 548	$	$ 65,769
U.S. Government-sponsored entities and agencies	171,629	1,621	(65)	173,185
Mortgage-backed securities Agency	1,153,629	28,687	(61)	1,182,255
Mortgage-backed securities Non-agency	90,355	418	(4,873)	85,900
States and political subdivisions	376,609	26,428	(193)	402,844
Pooled trust preferrred securities	25,461		(18,134)	7,327
Other securities	147,897	8,365	(2,266)	153,996
Total available-for-sale securities	$ 2,030,801	$ 66,067	$ (25,592)	$ 2,071,276
Held-to-maturity				
U.S. Government-sponsored entities and agencies	$ 177,159	$ 11,434	$	$ 188,593
Mortgage-backed securities Agency	84,075	3,305		87,380
States and political subdivisions	216,345	8,548	(176)	224,717
Other securities	7,011		(2)	7,009
Total held-to-maturity securities	$ 484,590	$ 23,287	$ (178)	$ 507,699

Table of Contents

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

(dollars in thousands) Maturity	June 30, 2012 Amortized Cost	Fair Value	Weighted Average Yield
Available-for-sale			
Within one year	$ 29,958	$ 30,218	3.69%
One to five years	90,576	95,381	3.65
Five to ten years	435,110	449,338	3.02
Beyond ten years	1,600,241	1,633,325	3.33
Total	$ 2,155,885	$ 2,208,262	3.29%
Held-to-maturity			
Within one year	$ 3,045	$ 3,045	2.25%
One to five years	2,341	2,415	3.29
Five to ten years	145,765	153,132	2.94
Beyond ten years	312,784	335,112	4.50
Total	$ 463,935	$ 493,704	3.99%

16

Table of Contents

The following table summarizes the investment securities with unrealized losses at June 30, 2012 and December 31, 2011 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2012						
Available-for-Sale						
U.S. Government-sponsored entities and agencies	**$ 36,457**	**$ (55)**	**$**	**$**	**$ 36,457**	**$ (55)**
Mortgage-backed securities Agency	**25,009**	**(163)**			**25,009**	**(163)**
Mortgage-backed securities Non-agency	**35,467**	**(2,996)**	**16,580**	**(576)**	**52,047**	**(3,572)**
States and political subdivisions	**44,944**	**(528)**			**44,944**	**(528)**
Pooled trust preferrred securities			**8,460**	**(16,834)**	**8,460**	**(16,834)**
Other securities	**6,837**	**(41)**	**6,592**	**(1,489)**	**13,429**	**(1,530)**
Total available-for-sale	**$ 148,714**	**$ (3,783)**	**$ 31,632**	**$ (18,899)**	**$ 180,346**	**$ (22,682)**
Held-to-Maturity						
States and political subdivisions	**$ 1,638**	**$ (1)**	**$ 51**	**$**	**$ 1,689**	**$ (1)**
Total held-to-maturity	**$ 1,638**	**$ (1)**	**$ 51**	**$**	**$ 1,689**	**$ (1)**
December 31, 2011						
Available-for-Sale						
U.S. Government-sponsored entities and agencies	$ 24,935	$ (65)	$	$	$ 24,935	$ (65)
Mortgage-backed securities Agency	49,016	(61)	3		49,019	(61)
Mortgage-backed securities Non-agency	10,053	(353)	59,203	(4,520)	69,256	(4,873)
States and political subdivisions	9,281	(114)	1,345	(79)	10,626	(193)
Pooled trust preferrred securities			7,327	(18,134)	7,327	(18,134)
Other securities	4,516	(141)	6,218	(2,125)	10,734	(2,266)
Total available-for-sale	$ 97,801	$ (734)	$ 74,096	$ (24,858)	$ 171,897	$ (25,592)
Held-to-Maturity						
States and political subdivisions	$ 1,613	$ (1)	$ 13,180	$ (175)	$ 14,793	$ (176)
Other securities	22	(2)			22	(2)
Total held-to-maturity	$ 1,635	$ (3)	$ 13,180	$ (175)	$ 14,815	$ (178)

Proceeds from sales and calls of securities available for sale were $197.3 million and $308.7 million for the six months ended June 30, 2012 and 2011, respectively. Gains of $7.6 million and $3.0 million were realized on these sales during 2012 and 2011, respectively, and offsetting losses of $1.0 million were realized on these sales during 2011. Also included in net securities gains for the first six months of 2012 is $45 thousand of gains associated with the trading securities and other-than-temporary impairment charges related to credit loss on five non-agency mortgage-backed securities and one trust preferred security in the amount of $876 thousand, described below. Impacting earnings in the first six months of 2011 was $106 thousand of gains associated with the trading securities and other-than-temporary impairment charges related to credit loss on three non-agency mortgage-backed securities in the amount of $0.5 million.

Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled $2.9 million at June 30, 2012 and $2.8 million at December 31, 2011.

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

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

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

As of June 30, 2012, Old National s security portfolio consisted of 1,081 securities, 53 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 June 30, 2012, the Company s securities portfolio contained 10 non-agency collateralized mortgage obligations with a fair value of $73.7 million which had net unrealized losses of approximately $3.1 million. All of these securities are residential mortgage-backed securities. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of FASB ASC 325-10 (EITF 99-20). As of June 30, 2012, eight of these securities were rated below investment grade with grades ranging from B to D. One of the eight securities is rated B and has a fair value of $13.7 million, two of the securities are rated CCC with a fair value of $22.8 million, one of the securities is rated CC with a fair value of $2.3 million, one of the securities is rated C with a fair value of $16.1 million and three of the securities are rated D with a fair value of $9.2 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 $715 thousand of credit losses on five of these securities for the six months ended June 30, 2012. The fair value of these below investment grade non-agency mortgage-backed securities remaining at June 30, 2012 was $64.0 million.

Table of Contents

Based on an analysis of the underlying collateral, Old National recorded $0.5 million of credit losses on three non-agency mortgage-backed securities for the six months ended June 30, 2011. The fair value of these non-agency mortgage-backed securities was $84.1 million at June 30, 2011.

Pooled Trust Preferred Securities

At June 30, 2012, the Company's securities portfolio contained eight pooled trust preferred securities with a fair value of $8.5 million and unrealized losses of $16.8 million. Six of the pooled trust preferred securities in our portfolio fall within the scope of FASB ASC 325-10 (EITF 99-20) and have a fair value of $3.9 million with unrealized losses of $7.1 million at June 30, 2012. These securities were rated A2 and A3 at inception, but at June 30, 2012, four securities were rated C and two securities D. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National s note class. For the six months ended June 30, 2012, our model indicated other-than-temporary-impairment losses on one security of $161 thousand, all of which was recorded as a credit loss in earnings. At June 30, 2012, the fair value of this security was $475 thousand and it was classified as available for sale.

Two of our pooled trust preferred securities with a fair value of $4.6 million and unrealized losses of $9.7 million at June 30, 2012 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

For the six months ended June 30, 2011, the seven securities subject to FASB ASC 325-10 accounted for $7.2 million of the unrealized losses in the pooled trust preferred securities category. Our analysis indicated no other-than-temporary-impairment on these securities.

Two of our pooled trust preferred securities with a fair value of $3.8 million and unrealized losses of $10.4 million at June 30, 2011 were not subject to FASB ASC 325-10. These securities were evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

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

Table of Contents

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

Trust preferred securities **June 30, 2012** **(Dollars in Thousands)**	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2012	# of Issuers Currently Performing/ Remaining	Actual Deferrals and Defaults as a Percent of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination as a % of Current Performing Collateral
Pooled trust preferred securities:										
TROPC 2003-1A	A4L	C	$ 86	$ 22	$ (64)	$	14/36	45.2%	15.9%	0.0%
MM Community Funding IX	B-2	D	2,067	858	(1,209)		16/31	41.1%	8.3%	0.0%
Reg Div Funding 2004	B-2	D	4,017	475	(3,542)	161	24/45	45.7%	6.3%	0.0%
Pretsl XII	B-1	C	2,843	1,385	(1,458)		49/74	27.9%	8.0%	0.0%
Pretsl XV	B-1	C	1,695	1,115	(580)		49/71	32.6%	6.3%	0.0%
Reg Div Funding 2005	B-1	C	311	27	(284)		18/48	55.9%	30.2%	0.0%
Pretsl XXVII LTD	B	CC	4,877	1,068	(3,809)		33/49	28.1%	24.9%	28.5%
Trapeza Ser 13A	A2A	B	9,398	3,510	(5,888)		43/54	29.0%	19.4%	39.6%
			25,294	8,460	(16,834)	161				
Single Issuer trust preferred securities:										
First Empire Cap (M&T)		BB+	956	1,054	98					
First Empire Cap (M&T)		BB+	2,907	3,161	254					
Fleet Cap Tr V (BOA)		BB	3,362	2,816	(546)					
JP Morgan Chase Cap XIII		BBB	4,718	3,775	(943)					
			11,943	10,806	(1,137)					
Total			$ 37,237	$ 19,266	$ (17,971)	$ 161				

(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 June 30, 2012 and the related credit losses recognized in earnings:

	Vintage	Lowest Credit Rating (1)	Amortized Cost	Amount of other-than-temporary impairment recognized in earnings Three months ended June 30, 2012	Six months ended June 30, 2012
Non-agency mortgage-backed securities:					
BAFC Ser 4	2007	CCC	$ 13,176	$ 84	$ 160
CWALT Ser 73CB	2005	D	2,772	117	117
HALO Ser 1R	2006	B	15,470	129	133
RAST A9	2004	CCC	9,567	142	142
RFMSI Ser S10	2006	D	3,419	147	163
			$ 44,404	619	715
Pooled trust preferred securities:					
Reg Div Funding	2004	D	4,017	161	161
			$ 4,017	161	161

Total other-than-temporary-impairment recognized in earnings	$ 780	$ 876

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

20

Table of Contents

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

	Vintage	Lowest Credit Rating (1)	Amortized Cost	Amount of other-than-temporary impairment recognized in earnings: Three months ended June 30, 2011	Six months ended June 30, 2011
Non-agency mortgage-backed securities:					
FHASI Ser 4	2007	CC	$ 21,098	$ 138	$ 340
HALO Ser 1R	2006	B	15,640	16	16
RFMSI Ser S10	2006	CC	4,217	46	143
			$ 40,955	200	499
Total other-than-temporary-impairment recognized in earnings				$ 200	$ 499

(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 June 30, 2012, and the related life-to-date credit losses recognized in earnings:

				Amount of other-than-temporary impairment recognized in earnings				
	Vintage	Lowest Credit Rating (1)	Amortized Cost	Six Months June 30, 2012	Year ended December 31, 2011	2010	2009	Life-to date
Non-agency mortgage-backed securities:								
BAFC Ser 4	2007	CCC	$ 13,176	$ 160	$	$ 79	$ 63	$ 302
CWALT Ser 73CB	2005	D	2,772	117		207	83	407
CWALT Ser 73CB	2005	D	3,980			427	182	609
CWHL 2006-10 (3)	2006					309	762	1,071
CWHL 2005-20	2005	CC	2,168			39	72	111
FHASI Ser 4	2007	C	16,803		340	629	223	1,192
HALO Ser 1R	2006	B	15,470	133	16			149
RFMSI Ser S9 (2)	2006					923	1,880	2,803
RFMSI Ser S10	2006	D	3,419	163	165	76	249	653
RALI QS2 (2)	2006					278	739	1,017
RAST A9	2004	CCC	9,567	142				142
RFMSI S1(4)	2006					30	176	206
			67,355	715	521	2,997	4,429	8,662
Pooled trust preferred securities:								
TROPC	2003	C	86		888	444	3,517	4,849
MM Community Funding IX	2003	D	2,067			165	2,612	2,777
Reg Div Funding	2004	D	4,017	161		321	5,199	5,681
Pretsl XII	2003	C	2,843				1,897	1,897
Pretsl XV	2004	C	1,695				3,374	3,374

Reg Div Funding	2005	C	311				3,767	3,767
			11,019	161	888	930	20,366	22,345
Total other-than-temporary-impairment recognized in earnings				$ 876	$ 1,409	$ 3,927	$ 24,795	$ 31,007

(1) Lowest rating for the security provided by any nationally recognized credit rating agency.
(2) Sold during fourth quarter 2010.
(3) Sold during first quarter 2011.
(4) Sold during second quarter 2012.

Table of Contents

NOTE 7 LOANS HELD FOR SALE

Residential loans that Old National has committed to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). At June 30, 2012 and December 31, 2011, Old National had residential loans held for sale of $4.4 million and $4.5 million, respectively.

During the first six months of 2012, commercial and commercial real estate loans held for investment of $1.6 million, including $1.5 million of purchased impaired loans, were reclassified to loans held for sale at the lower of cost or fair value and sold for $2.2 million, resulting in a charge-off of $0.1 million and a recovery of $0.7 million. At June 30, 2012, there were no loans held for sale under this arrangement.

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

NOTE 8 FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES

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

The composition of loans by lending classification was as follows:

(dollars in thousands)	**June 30, 2012**	December 31, 2011
Commercial (1)	**$ 1,205,532**	$ 1,216,654
Commercial real estate:		
Construction	**64,910**	46,141
Other	**977,671**	1,021,229
Residential real estate	**1,122,800**	995,458
Consumer credit:		
Heloc	**220,565**	235,603
Auto	**511,706**	483,575
Other	**123,115**	142,183
Covered loans	**489,331**	626,360
Total loans	**4,715,630**	4,767,203
Allowance for loan losses	**(50,424)**	(57,117)
Allowance for loan losses covered loans	**(4,336)**	(943)
Net loans	**$ 4,660,870**	$ 4,709,143

(1) Includes direct finance leases of $68.9 million at June 30, 2012 and $79.6 million at December 31, 2011.

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

Commercial

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

Commercial real estate

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

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

Residential

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

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

Consumer

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

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

Table of Contents

Covered Loans

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

Allowance for loan losses

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

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

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

Old National s activity in the allowance for loan losses for the three months ended June 30, 2012 and 2011 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2012						
Allowance for loan losses:						
Beginning balance	$ 18,094	$ 27,818	$ 5,646	$ 4,358		$ 55,916
Charge-offs	(1,972)	(718)	(2,125)	(360)		(5,175)
Recoveries	849	1,553	1,188	36		3,626
Provision	879	(32)	(27)	(427)		393
Ending balance	$ 17,850	$ 28,621	$ 4,682	$ 3,607		$ 54,760

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2011						
Allowance for loan losses:						
Beginning balance	$ 27,190	$ 32,550	$ 10,280	$ 2,729		$ 72,749
Charge-offs	(3,838)	(2,274)	(2,465)	(325)		(8,902)
Recoveries	1,302	316	1,468	49		3,135
Provision	1,375	1,898	(725)	659		3,207
Ending balance	$ 26,029	$ 32,490	$ 8,558	$ 3,112		$ 70,189

24

Table of Contents

Old National s activity in the allowance for loan losses for the six months ended June 30, 2012 and 2011 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2012						
Allowance for loan losses:						
Beginning balance	$ 19,964	$ 26,993	$ 6,954	$ 4,149		$ 58,060
Charge-offs	(3,240)	(4,093)	(4,550)	(920)		(12,803)
Recoveries	2,293	2,121	2,525	115		7,054
Provision	(1,167)	3,600	(247)	263		2,449
Ending balance	$ 17,850	$ 28,621	$ 4,682	$ 3,607		$ 54,760

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2011						
Allowance for loan losses:						
Beginning balance	$ 26,204	$ 32,654	$ 11,142	$ 2,309		$ 72,309
Charge-offs	(5,169)	(2,981)	(5,853)	(1,173)		(15,176)
Recoveries	2,135	984	3,326	92		6,537
Provision	2,859	1,833	(57)	1,884		6,519
Ending balance	$ 26,029	$ 32,490	$ 8,558	$ 3,112		$ 70,189

The following tables provide Old National s recorded investment in financing receivables by portfolio segment at June 30, 2012 and December 31, 2011 and other information regarding the allowance:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
June 30, 2012						
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 6,546	$ 4,841	$ 5	$ 3		$ 11,395
Ending balance: collectively evaluated for impairment	$ 10,495	$ 16,476	$ 3,597	$ 2,703		$ 33,271
Ending balance: loans acquired with deteriorated credit quality	$ 453	$ 4,250	224	$ 831		$ 5,758
Ending balance: covered loans acquired with deteriorated credit quality	$ 356	$ 3,054	$ 856	$ 70		$ 4,336
Total allowance for credit losses	$ 17,850	$ 28,621	$ 4,682	$ 3,607		$ 54,760
Loans and leases outstanding:						
Ending balance: individually evaluated for impairment	$ 28,840	$ 34,422				$ 63,262
Ending balance: collectively evaluated for impairment	$ 1,176,229	$ 992,534	$ 855,386	$ 1,122,800		$ 4,146,949
	$ 463	$ 15,625				$ 16,088

Ending balance: loans acquired with deteriorated credit quality					
Ending balance: covered loans acquired with deteriorated credit quality	$ 75,925	$ 261,720	$ 111,285	$ 40,401	$ 489,331
Total loans and leases outstanding	$ 1,281,457	$ 1,304,301	$ 966,671	$ 1,163,201	$ 4,715,630

25

Table of Contents

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

Credit Quality

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

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

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

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

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

Table of Contents

As of June 30, 2012 and December 31, 2011, the risk category of loans, excluding covered loans, by class of loans is as follows:

(dollars in thousands) **Corporate Credit Exposure by Internally Assigned Grade**	Commercial June 30, 2012	Commercial December 31, 2011	Commercial Real Estate-Construction June 30, 2012	Commercial Real Estate-Construction December 31, 2011	Commercial Real Estate-Other June 30, 2012	Commercial Real Estate-Other December 31, 2011
Grade:						
Pass	$ 1,113,539	$ 1,103,556	$ 43,096	$ 16,841	$ 855,632	$ 895,543
Criticized	46,057	36,212	13,437	13,605	43,586	30,331
Classified - substandard	16,202	41,695	3,503	10,147	25,264	34,478
Classified - doubtful	29,734	35,191	4,874	5,548	53,189	60,877
Total	$ 1,205,532	$ 1,216,654	$ 64,910	$ 46,141	$ 977,671	$ 1,021,229

Old National considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, Old National also evaluates credit quality based on the aging status of the loan and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of June 30, 2012 and December 31, 2011, excluding covered loans:

June 30, 2012 (dollars in thousands)	Consumer Heloc	Consumer Auto	Consumer Other	Residential
Performing	$ 219,537	$ 510,251	$ 121,600	$ 1,113,928
Nonperforming	1,028	1,455	1,515	8,872
	$ 220,565	$ 511,706	$ 123,115	$ 1,122,800

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

Impaired Loans

Large commercial credits are subject to individual evaluation for impairment. Retail credits and other small balance credits that are part of a homogeneous group are not tested for individual impairment. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Old National's policy, for all but purchased credit impaired loans, is to recognize interest income on impaired loans unless the loan is placed on nonaccrual status. For the six months ended June 30, 2012 and 2011, the average balance of impaired loans was $72.0 million and $62.0 million, respectively, for which no interest income was recorded. No additional funds are committed to be advanced in connection with these impaired loans.

The following table shows Old National s impaired loans, excluding covered loans, that are individually evaluated as of June 30, 2012 and December 31, 2011. Of the loans purchased during 2011 without FDIC loss share coverage, only those that have experienced subsequent impairment since the date acquired are included in the table below. Purchased loans of $3.8 million migrated to classified-doubtful during the second quarter of 2012. Purchased loans of $24.0 million migrated to classified-doubtful during the year ended December 31, 2011.

27

Table of Contents