

OLD NATIONAL BANCORP /IN/

Form 10-Q

August 04, 2009

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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2009**

**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, and (2) has been subject to the filing requirements for at least the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated  
filer

Accelerated filer

Non-accelerated filer

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

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 66,433,000 shares outstanding at June 30, 2009.



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CONSOLIDATED BALANCE SHEETS**

(dollars and shares in thousands, except per share data)	<b>June 30, 2009 (unaudited)</b>	<b>December 31, 2008</b>	<b>June 30, 2008 (unaudited)</b>
<b>Assets</b>			
Cash and due from banks	\$ 146,698	\$ 162,893	\$ 223,056
Federal funds sold and resell agreements		6	1,209
Money market investments	62,548	30,113	10,254
Total cash and cash equivalents	209,246	193,012	234,519
Investment securities available-for-sale, at fair value			
U.S. Treasury	957		
U.S. Government-sponsored entities and agencies	600,992	389,278	333,212
Mortgage-backed securities	950,500	1,081,619	1,006,606
States and political subdivisions	522,732	482,204	328,040
Other securities	174,227	171,925	206,682
Investment securities available-for-sale	2,249,408	2,125,026	1,874,540
Investment securities held-to-maturity, at amortized cost (fair value \$311,334, \$100,831 and \$108,120 respectively)	314,170	99,661	111,706
Federal Home Loan Bank stock, at cost	36,090	41,090	41,090
Residential loans held for sale, at fair value	25,249	17,155	16,620
Finance leases held for sale	370,231		
Loans:			
Commercial	1,422,606	1,897,966	1,826,081
Commercial real estate	1,124,383	1,154,916	1,196,511
Residential real estate	448,438	496,526	516,010
Consumer credit, net of unearned income	1,155,779	1,210,951	1,188,140
Total loans	4,151,206	4,760,359	4,726,742
Allowance for loan losses	(70,101)	(67,087)	(62,087)
Net loans	4,081,105	4,693,272	4,664,655
Premises and equipment, net	58,671	44,625	44,274
Accrued interest receivable	49,082	49,030	45,937
Goodwill	167,884	159,198	159,198
Other intangible assets	36,148	27,628	29,512
Company-owned life insurance	224,237	223,126	219,667
Assets held for sale	1,567	1,992	2,996
Other assets	189,087	199,075	157,072
Total assets	\$ 8,012,175	\$ 7,873,890	\$ 7,601,786
<b>Liabilities</b>			
Deposits:			

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Noninterest-bearing demand	<b>\$ 1,045,568</b>	\$ 888,578	\$ 858,585
Interest-bearing:			
NOW	<b>1,297,215</b>	1,292,574	1,322,684
Savings	<b>928,879</b>	874,602	900,569
Money market	<b>451,985</b>	420,821	483,154
Time (including \$0, \$49,309 and \$49,775, respectively, at fair value)	<b>2,074,861</b>	1,945,712	1,807,425
Total deposits	<b>5,798,508</b>	5,422,287	5,372,417
Short-term borrowings	<b>542,418</b>	649,623	575,280
Other borrowings	<b>810,305</b>	834,867	783,396
Accrued expenses and other liabilities	<b>226,355</b>	236,248	221,678
Total liabilities	<b>7,377,586</b>	7,143,025	6,952,771
<b>Shareholders Equity</b>			
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding			
Preferred stock, series T, no par value, \$1,000 liquidation value, 1,000 shares authorized, 0, 100 and 0 shares issued and outstanding, respectively		97,358	
Common stock, \$1 stated value, 150,000 shares authorized, 66,433, 66,321 and 66,206 shares issued and outstanding, respectively	<b>66,433</b>	66,321	66,206
Capital surplus	<b>570,763</b>	569,875	565,379
Retained earnings	<b>46,060</b>	50,815	57,824
Accumulated other comprehensive loss, net of tax	<b>(48,667)</b>	(53,504)	(40,394)
Total shareholders equity	<b>634,589</b>	730,865	649,015
Total liabilities and shareholders equity	<b>\$ 8,012,175</b>	\$ 7,873,890	\$ 7,601,786

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

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

(dollars in thousands, except per share data)	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Interest Income</b>				
Loans including fees:				
Taxable	\$ 50,263	\$ 65,279	\$ 101,957	\$ 136,407
Nontaxable	5,855	5,638	11,705	11,099
Investment securities, available-for-sale:				
Taxable	25,417	21,498	48,898	44,060
Nontaxable	5,719	3,435	11,518	6,656
Investment securities, held-to-maturity, taxable	1,891	1,323	2,989	2,753
Money market investments and federal funds sold	37	192	98	524
<b>Total interest income</b>	<b>89,182</b>	<b>97,365</b>	<b>177,165</b>	<b>201,499</b>
<b>Interest Expense</b>				
Deposits	17,659	22,097	35,449	51,833
Short-term borrowings	448	3,051	836	6,980
Other borrowings	10,308	10,873	20,915	21,552
<b>Total interest expense</b>	<b>28,415</b>	<b>36,021</b>	<b>57,200</b>	<b>80,365</b>
<b>Net interest income</b>	<b>60,767</b>	<b>61,344</b>	<b>119,965</b>	<b>121,134</b>
Provision for loan losses	11,968	5,700	29,268	27,605
<b>Net interest income after provision for loan losses</b>	<b>48,799</b>	<b>55,644</b>	<b>90,697</b>	<b>93,529</b>
<b>Noninterest Income</b>				
Wealth management fees	4,258	4,912	8,085	9,481
Service charges on deposit accounts	15,675	11,282	26,364	21,520
ATM fees	5,411	4,471	9,551	8,505
Mortgage banking revenue	1,764	1,371	3,492	2,604
Insurance premiums and commissions	8,908	9,304	20,318	21,373
Investment product fees	2,250	2,408	4,489	5,126
Company-owned life insurance	420	2,751	1,116	5,511
Net securities gains	10,295	2,061	15,872	6,580
Impairment on available-for-sale securities (includes losses of \$8,445 and \$23,733, net of \$581 and \$13,478 recognized in other comprehensive income, pre-tax, for the three and six months ended June 30, 2009, respectively)	(7,864)		(10,255)	
Gain (loss) on derivatives	516	(357)	999	(973)
Gain on sale leaseback transactions	1,468	1,599	3,057	3,164
Other income	2,505	3,711	4,753	7,498
<b>Total noninterest income</b>	<b>45,606</b>	<b>43,513</b>	<b>87,841</b>	<b>90,389</b>

**Noninterest Expense**

Salaries and employee benefits	<b>45,206</b>	43,178	<b>87,905</b>	85,506
Occupancy	<b>12,050</b>	9,550	<b>22,642</b>	19,195
Equipment	<b>2,674</b>	2,499	<b>4,988</b>	5,067
Marketing	<b>2,618</b>	2,651	<b>4,614</b>	4,695
Data processing	<b>5,353</b>	4,930	<b>10,244</b>	9,552
Communication	<b>2,869</b>	2,211	<b>5,420</b>	4,522
Professional fees	<b>2,108</b>	1,891	<b>4,750</b>	3,549
Loan expense	<b>1,151</b>	1,743	<b>2,026</b>	2,994
Supplies	<b>1,162</b>	750	<b>2,484</b>	1,634
FDIC assessment	<b>6,341</b>	295	<b>8,425</b>	597
Amortization of intangibles	<b>1,664</b>	898	<b>2,666</b>	1,774
Other expense	<b>3,555</b>	4,238	<b>8,051</b>	6,685
<b>Total noninterest expense</b>	<b>86,751</b>	74,834	<b>164,215</b>	145,770
<b>Income before income taxes</b>	<b>7,654</b>	24,323	<b>14,323</b>	38,148
Income tax expense (benefit)	<b>(1,981)</b>	4,848	<b>(4,717)</b>	(667)
<b>Net income</b>	<b>9,635</b>	19,475	<b>19,040</b>	38,815
Preferred stock dividends and discount accretion			<b>(3,892)</b>	
Net income available to common stockholders	<b>\$ 9,635</b>	\$ 19,475	<b>\$ 15,148</b>	\$ 38,815
Net income per common share basic	<b>\$ 0.15</b>	\$ 0.30	<b>\$ 0.23</b>	\$ 0.59
Net income per common share diluted	<b>0.15</b>	0.30	<b>0.23</b>	0.59
Weighted average number of common shares outstanding-basic	<b>65,950</b>	65,640	<b>65,872</b>	65,631
Weighted average number of common shares outstanding-diluted	<b>65,999</b>	65,812	<b>65,916</b>	65,784
Dividends per common share	<b>\$ 0.07</b>	\$ 0.23	<b>\$ 0.30</b>	\$ 0.23

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



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

	Preferred	Common	Capital	Retained	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Comprehensive Income
(dollars and shares in thousands)	Stock	Stock	Surplus	Earnings	(Loss)	Equity	Income
<b>Balance, December 31, 2007</b>		\$ 66,205	\$ 563,675	\$ 34,346	\$ (11,345)	\$ 652,881	
Comprehensive income							
Net income				38,815		38,815	\$ 38,815
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					(26,692)	(26,692)	(26,692)
Reclassification adjustment on cash flows hedges, net of tax					87	87	87
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax					(2,444)	(2,444)	(2,444)
Total comprehensive income							\$ 9,766
Dividends common stock				(15,337)		(15,337)	
Common stock repurchased		(20)	(323)			(343)	
Stock based compensation expense			1,756			1,756	
Stock activity under incentive comp plans		21	271			292	
<b>Balance, June 30, 2008</b>		\$ 66,206	\$ 565,379	\$ 57,824	\$ (40,394)	\$ 649,015	
<b>Balance, December 31, 2008</b>	<b>\$ 97,358</b>	<b>\$ 66,321</b>	<b>\$ 569,875</b>	<b>\$ 50,815</b>	<b>\$ (53,504)</b>	<b>\$ 730,865</b>	
Comprehensive income							
Net income				19,040		19,040	\$ 19,040
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					4,287	4,287	4,287
Reclassification adjustment on cash flows hedges, net of tax					114	114	114
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax					436	436	436
Total comprehensive income							\$ 23,877

Dividends common stock				(19,872)		(19,872)
Dividends preferred stock				(1,250)		(1,250)
Common stock issued		151	1,357			1,508
Preferred stock repurchased	(97,358)			(2,642)		(100,000)
Common stock repurchased		(28)	(322)			(350)
Warrants repurchased			(1,200)			(1,200)
Stock based compensation expense			796			796
Stock activity under incentive comp plans		(11)	257	(31)		215
<b>Balance, June 30, 2009</b>	<b>\$</b>	<b>\$ 66,433</b>	<b>\$ 570,763</b>	<b>\$ 46,060</b>	<b>\$ (48,667)</b>	<b>\$ 634,589</b>

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

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(dollars in thousands)	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 19,040	\$ 38,815
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	4,287	2,979
Amortization and impairment of other intangible assets	2,666	2,466
Net discount accretion on investment securities	(71)	(792)
Restricted stock expense	614	1,548
Stock option expense	182	208
Provision for loan losses	29,268	27,605
Net securities gains	(15,872)	(6,580)
Impairment on available-for-sale securities	10,255	
Gain on sale leasebacks	(3,057)	(3,164)
(Gain) loss on derivatives	(999)	973
Net gains on sales and write-downs of loans and other assets	(1,325)	(1,427)
(Gain) loss on extinguishment of debt	247	(254)
Increase in cash surrender value of company owned life insurance	(1,111)	(5,182)
Residential real estate loans originated for sale	(153,802)	(95,490)
Proceeds from sale of residential real estate loans	147,558	93,404
(Increase) decrease in interest receivable	(20)	4,341
(Increase) decrease in other assets	8,729	(20,048)
Increase (decrease) in accrued expenses and other liabilities	(6,699)	920
Total adjustments	20,850	1,507
Net cash flows provided by operating activities	39,890	40,322
<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	(1,145,874)	(604,750)
Purchase of loans	(8,024)	
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	394,193	635,909
Proceeds from sales of investment securities available-for-sale	415,092	198,064
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	14,925	14,718
Proceeds from sale of loans	2,000	2,251
Net principal collected from (loans made to) customers	224,291	(64,563)
Proceeds from sale of premises and equipment and other assets	18	6,973
Proceeds from sale leaseback of real estate	1,646	4,542
Purchases of premises and equipment	(8,179)	(5,019)
Net cash flows provided by (used in) investing activities	280,005	188,125

**Cash Flows From Financing Activities**

Net increase (decrease) in deposits and short-term borrowings:		
Noninterest-bearing demand deposits	77,294	3,136
Savings, NOW and money market deposits	(90,902)	(40,441)
Time deposits	(35,704)	(251,530)
Short-term borrowings	(107,205)	(62,967)
Payments for maturities on other borrowings	(349)	(150,320)
Proceeds from issuance of other borrowings		275,000
Payments related to retirement of debt	(25,464)	
Cash dividends paid on common stock	(19,872)	(30,333)
Cash dividends paid on preferred stock	(1,514)	
Common stock repurchased	(350)	(284)
Proceeds from exercise of stock options, including tax benefit	97	139
Repurchase of TARP preferred stock and warrants	(101,200)	
Common stock issued	1,508	
Net cash flows provided by (used in) financing activities	(303,661)	(257,600)
Net increase (decrease) in cash and cash equivalents	16,234	(29,153)
Cash and cash equivalents at beginning of period	193,012	263,672
<b>Cash and cash equivalents at end of period</b>	<b>\$ 209,246</b>	<b>\$ 234,519</b>
Supplemental cash flow information:		
Total interest paid	\$ 58,208	\$ 87,114
Total taxes paid (net of refunds)	\$ 2,102	\$ 15,402

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

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

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates ( Old National ) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, goodwill and intangibles, derivative financial instruments, income taxes and valuation of securities 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, 2009 and 2008, and December 31, 2008, and the results of its operations for the three and six months ended June 30, 2009 and 2008. 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, 2008.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2009 presentation. Such reclassifications had no effect on net income.

These financial statements consider events that occurred through August 4, 2009, the date the financial statements were issued.

**NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

**FSP SFAS No. 157-2** In February 2008, the FASB issued FASB Staff Position No. 157-2. The staff position delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The delay expired January 1, 2009, and the expiration of the delay did not have a material impact on Old National's consolidated financial position or results of operations.

**SFAS No. 141(R)** In December 2007, the FASB issued Statement No. 141(R) *Business Combinations*. This statement replaces FASB Statement No. 141 *Business Combinations*. SFAS No. 141(R) establishes principles and requirements for how an acquiring company (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The new standard became effective for the Company on January 1, 2009. See Note 3 to the consolidated financial statements for the impact on the Company of adopting SFAS No. 141(R).

**SFAS No. 160** In December 2007, the FASB issued Statement No. 160 *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*. SFAS No. 160 requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the consolidated balance sheet within equity, but separate from the parent's equity. It also requires the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income. The new standard became effective for the Company on January 1, 2009. The adoption of this statement did not have a material impact on the Company's consolidated financial position or results of operations.

**SFAS No. 161** In March 2008, the FASB issued Statement No. 161 *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*. SFAS No. 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related items are accounted for under Statement 133 and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The new standard became effective for the Company on January 1, 2009. The adoption of this statement did not have a material impact on the Company's consolidated financial position or results of operations and the required disclosures have been included.



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**SFAS No. 165** In May 2009, the FASB issued Statement No. 165 *Subsequent Events*. SFAS No. 165 establishes the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements and the circumstances under which an entity shall recognize events or transactions that occur after the balance sheet date. SFAS No. 165 also requires disclosure of the date through which subsequent events have been evaluated. The new standard becomes effective for interim and annual periods ending after June 15, 2009. The Company adopted this standard for the interim reporting period ending June 30, 2009. The adoption of this statement did not have a material impact on the Company's consolidated financial position or results of operations.

**SFAS No. 166** In June 2009, the FASB issued Statement No. 166 *Accounting for Transfers of Financial Assets* an amendment of FASB Statement No. 140. SFAS No. 166 amends SFAS No. 140 and 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 will become effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting SFAS No. 166 on the consolidated financial statements.

**SFAS No. 167** In June 2009, the FASB issued Statement No. 167 *Amendments to FASB Interpretation No. 46(R)*. SFAS No. 167 amends tests under Interpretation No. 46(R) for variable interest entities to determine whether a variable interest entity must be consolidated. SFAS No. 167 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 statement 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 standard will become effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting SFAS No. 167 on the consolidated financial statements.

**SFAS No. 168** In June 2009, the FASB issued Statement No. 168 *The FASB Accounting Standards Codification and the Hierarchy of 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 new standard becomes effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this statement is not expected to have a material impact on the Company's consolidated financial position or results of operations.

**FSP FAS 132(R)-1** In December 2008, the FASB issued FASB Staff Position No. 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*. This FASB staff position amends FASB Statement No. 132 to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 requires disclosure of the fair value of each major category of plan assets for pension plans and other postretirement benefit plans. This FASB staff position becomes effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting FSP FAS 132(R)-1 on the consolidated financial statements, but it is not expected to have a material impact.

**FSP No. FAS 107-1 and APB 28-1** In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FASB staff position amends FASB Statement No. 107 to require disclosures about fair values of financial instruments for interim reporting periods as well as in annual financial statements. The staff position also amends APB Opinion No. 28 to require those disclosures in summarized financial information at interim reporting periods. This FASB staff position becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this FASB staff position for the interim reporting period ending March 31, 2009.





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**FSP No. FAS 115-2 and FAS 124-2** In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FASB staff position amends the other-than-temporary impairment guidance in U.S. generally accepted accounting principles for debt securities. If an entity determines that it has an other-than-temporary impairment on a security, it must recognize the credit loss on the security in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The staff position expands disclosures about other-than-temporary impairment and requires that the annual disclosures in FASB Statement No. 115 and FSP FAS 115-1 and FAS 124-1 be made for interim reporting periods. This FASB staff position becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009.

The Company adopted this FASB staff position for the interim reporting period ending March 31, 2009. See Note 6 to the consolidated financial statements for the impact on the Company of adopting FSP No. FAS 115-2 and FAS 124-2.

**FSP No. FAS 157-4** In April 2009, the FASB issued FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FASB staff position provides additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. A significant decrease in the volume or level of activity for the asset or liability is an indication that transactions or quoted prices may not be determinative of fair value because transactions may not be orderly. In that circumstance, further analysis of transactions or quoted prices is needed, and an adjustment to the transactions or quoted prices may be necessary to estimate fair value. This FASB staff position becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this FASB staff position for the interim reporting period ending March 31, 2009 and it did not have a material impact on the Company's consolidated financial position or results of operations.

**SAB 111** In April 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 111 ( SAB 111 ). SAB 111 amends Topic 5.M. in the Staff Accounting Bulletin series entitled *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*. On April 9, 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. SAB 111 maintains the previous views related to equity securities and amends Topic 5.M. to exclude debt securities from its scope. SAB 111 was effective for the Company as of March 31, 2009. There was no material impact to Old National's consolidated financial position or results of operations upon adoption.

**SAB 112** In June 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 112 ( SAB 112 ). SAB 112 revises or rescinds portions of the interpretative guidance included in the Staff Accounting Bulletin series in order to make the interpretative guidance consistent with recent pronouncements by the FASB, specifically SFAS No. 141(R) and SFAS No. 160. SAB 112 was effective for the Company as of June 30, 2009. There was no material impact to Old National's consolidated financial position or results of operations upon adoption.

**EITF 08-6** In November 2008, the FASB Emerging Issues Task Force reached a consensus on Issue No. 08-6, *Equity Method Investment Accounting Considerations* ( EITF 08-6 ). EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. An equity investor shall not separately test an investee's underlying assets for impairment but will recognize its share of any impairment charge recorded by an investee in earnings and consider the effect of the impairment on its investment. An equity investor shall account for a share issuance by an investee as if the investor had sold a proportionate share of its investment, with any gain or loss recognized in earnings. EITF 08-6 became effective for the Company on January 1, 2009 and did not have a material impact on the Company's consolidated financial position or results of operations.

**EITF 08-7** In November 2008, the FASB Emerging Issues Task Force reached a consensus on Issue No. 08-7, *Accounting for Defensive Intangible Assets* ( EITF 08-7 ). EITF 08-7 clarifies how to account for defensive intangible assets subsequent to initial measurement. EITF 08-7 applies to acquired intangible assets in situations in which an entity does not intend to actively use an asset but intends to hold the asset to prevent others from obtaining access to the asset. A defensive intangible asset should be accounted for as a separate unit of accounting with an expected life that reflects the consumption of the expected benefits related to that asset. The benefit from holding a defensive

intangible asset is the direct and indirect cash flows resulting from the entity preventing others from using the asset. EITF 08-7 is effective for intangible assets acquired on or after January 1, 2009. The adoption of EITF 08-7 did not have a material impact on the Company's consolidated financial position or results of operations.

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**FSP EITF 03-6-1** In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. This FASB staff position concluded that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and therefore are considered participating securities for purposes of computing earnings per share. Entities that have participating securities that are not convertible into common stock are required to use the two-class method of computing earnings per share. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. This FASB staff position is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. This FASB staff position became effective for the Company on January 1, 2009 and did not have a material impact on the Company's consolidated financial position or results of operations.

**NOTE 3 ACQUISITION**

On March 20, 2009, Old National completed its acquisition of the Indiana retail branch banking network of Citizens Financial Group, which consists of 65 branches and a training facility. The branches are located primarily in the Indianapolis area, with additional locations in the Lafayette, Fort Wayne, Anderson and Bloomington, Indiana markets. Pursuant to the terms of the purchase agreement, Old National paid Citizens Financial Group approximately \$17.2 million. In accordance with SFAS No.141(R), Old National has expensed approximately \$4.4 million of direct acquisition costs and recorded goodwill of \$8.7 million and \$11.2 million of intangible assets. The intangible assets are related to core deposits and are being amortized on an accelerated basis over 7 years. See Note 9 to the consolidated financial statements for additional information. On the date of acquisition, Old National assumed deposit liabilities valued at approximately \$427 million and acquired a portfolio of loans valued at approximately \$5.6 million.

**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)	<b>Three Months Ended June 30, 2009</b>	<b>Three Months Ended June 30, 2008</b>
<b>Basic Earnings Per Share</b>		
Net income	\$ 9,635	\$ 19,475
Less: Preferred stock dividends and accretion of discount		
Net income available to common stockholders	9,635	19,475
Weighted average common shares outstanding	65,950	65,640
<b>Basic Earnings Per Share</b>	\$ 0.15	\$ 0.30
<b>Diluted Earnings Per Share</b>		
Net income available to common stockholders	9,635	19,475
Weighted average common shares outstanding	65,950	65,640
Effect of dilutive securities:		
Restricted stock (1)	41	148
Stock options (2)	8	24
Weighted average shares outstanding	65,999	65,812

<b>Diluted Earnings Per Share</b>	<b>\$</b>	<b>0.15</b>	<b>\$</b>	<b>0.30</b>
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(dollars and shares in thousands, except per share data)	<b>Six Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2008</b>
<b>Basic Earnings Per Share</b>		
Net income	\$ 19,040	\$ 38,815
Less: Preferred stock dividends and accretion of discount	3,892	
Net income available to common stockholders	15,148	38,815
Weighted average common shares outstanding	65,872	65,631
<b>Basic Earnings Per Share</b>	\$ 0.23	\$ 0.59
 <b>Diluted Earnings Per Share</b>		
Net income available to common stockholders	15,148	38,815
Weighted average common shares outstanding	65,872	65,631
Effect of dilutive securities:		
Restricted stock (1)	34	129
Stock options (2)	10	24
Weighted average shares outstanding	65,916	65,784
<b>Diluted Earnings Per Share</b>	\$ 0.23	\$ 0.59

(1) 144 and 220 shares of restricted stock were not included in the computation of net income per diluted share for the second quarter and six months ended June 30, 2009, respectively, because the effect would be antidilutive.

(2) Options to purchase 6,050 shares and 5,706 shares

outstanding at June 30, 2009 and 2008, respectively, were not included in the computation of net income per diluted share for the second quarter and six months ended June 30, 2009 and 2008, 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.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. This FASB staff position is effective for Old National for the interim periods beginning January 1, 2009. Upon adoption, all prior-period earnings per share data were recalculated according to EITF 03-6-1. These calculations resulted in no material changes to earnings per share data as previously presented.

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

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and unrealized gains and losses on cash flow hedges and changes in funded status of pension plans which are also recognized as separate components of equity. Following is a summary of other comprehensive income (loss) for the three and six months ended June 30, 2009 and 2008:

(dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net income	\$ 9,635	\$ 19,475	\$ 19,040	\$ 38,815
Other comprehensive income (loss)				
Change in securities available for sale:				
Unrealized holding gains (losses) arising during the period	279	(46,086)	23,972	(37,742)
Reclassification adjustment for securities (gains) losses realized in income	(10,295)	(2,061)	(15,872)	(6,580)
Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income	(581)		(13,478)	
Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income	7,864		10,255	
Income tax effect	1,074	19,017	(1,623)	17,630
Reclassification adjustment for securities transferred from available-for-sale to held-to-maturity	1,033		1,033	
Cash flow hedges:				
Net unrealized derivative gains (losses) on cash flow hedges	(1,065)		44	
Reclassification adjustment on cash flow hedges	72	72	144	143
Income tax effect	398	(28)	(74)	(56)
Defined benefit pension plans:				
Amortization of net (gain) loss recognized in income	13	(4,233)	727	(4,075)
Income tax effect	(6)	1,694	(291)	1,631
Total other comprehensive income (loss)	(1,214)	(31,625)	4,837	(29,049)
Comprehensive income (loss)	\$ 8,421	\$ (12,150)	\$ 23,877	\$ 9,766

The following table summarizes the changes within each classification of accumulated other comprehensive income for the six months ended June 30, 2009 and 2008:

(dollars in thousands)	Unrealized gains (losses) on available for sale securities	Unrecognized gain (loss) on cash flow hedges	Defined pension plans	Accumulated other comprehensive income (loss)
Balance at December 31, 2008	\$ (40,504)	\$ (480)	\$ (12,520)	\$ (53,504)
Other comprehensive income (loss)	(7,001)	114	436	(6,451)

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Other-than-temporary-impairment on available-for-sale securities realized in income		<b>10,255</b>				<b>10,255</b>
Reclassification of securities from available-for-sale to held-to-maturity		<b>1,033</b>				<b>1,033</b>
Balance at June 30, 2009	\$	<b>(36,217)</b>	\$	<b>(366)</b>	\$	<b>(12,084)</b>
Balance at December 31, 2007	\$	(3,704)	\$	(655)	\$	(6,986)
Other comprehensive income (loss)		(26,692)		87		(2,444)
Balance at June 30, 2008	\$	(30,396)	\$	(568)	\$	(9,430)



**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, 2009 and December 31, 2008 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>June 30, 2009</b>				
<b>Available-for-sale</b>				
U.S. Treasury	\$ 949	\$ 8	\$	\$ 957
U.S. Government-sponsored entities and agencies	605,100	2,968	(7,076)	600,992
Mortgage-backed securities Agency	747,723	13,238	(244)	760,717
Mortgage-backed securities Non-agency	246,561	448	(57,226)	189,783
States and political subdivisions	508,887	19,953	(6,108)	522,732
Pooled trust preferred securities	38,529		(22,176)	16,353
Other securities	161,401	2,708	(6,235)	157,874
Total available-for-sale securities	\$ 2,309,150	\$ 39,323	\$ (99,065)	\$ 2,249,408
<b>Held-to-maturity</b>				
U.S. Government-sponsored entities and agencies	\$ 229,675	\$ 23	\$ (4,341)	\$ 225,357
Mortgage-backed securities Agency	79,173	1,948		81,121
Other securities	5,322		(466)	4,856
Total held-to-maturity securities	\$ 314,170	\$ 1,971	\$ (4,807)	\$ 311,334
<b>December 31, 2008</b>				
<b>Available-for-sale</b>				
U.S. Government-sponsored entities and agencies	\$ 381,634	\$ 7,644	\$	\$ 389,278
Mortgage-backed securities Agency	850,222	15,125	(586)	864,761
Mortgage-backed securities Non-agency	276,842	318	(60,302)	216,858
States and political subdivisions	471,246	16,030	(5,072)	482,204
Pooled trust preferred securities	48,853		(29,186)	19,667
Other securities	160,848	883	(9,473)	152,258
Total available-for-sale securities	\$ 2,189,645	\$ 40,000	\$ (104,619)	\$ 2,125,026
<b>Held-to-maturity</b>				
Mortgage-backed securities Agency	\$ 90,987	\$ 1,529	\$	\$ 92,516
Other securities	8,674		(359)	8,315
Total held-to-maturity securities	\$ 99,661	\$ 1,529	\$ (359)	\$ 100,831

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.



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(dollars in thousands)	June 30, 2009		Weighted Average Yield
	Amortized Cost	Fair Value	
<b>Maturity</b>			
<b>Available-for-sale</b>			
Within one year	\$ 103,336	\$ 104,925	5.05%
One to five years	936,417	903,665	4.60
Five to ten years	271,432	261,795	5.58
Beyond ten years	997,965	979,023	5.24
Total	\$ 2,309,150	\$ 2,249,408	5.01%
<b>Held-to-maturity</b>			
One to five years	\$ 84,495	\$ 85,977	4.53%
Beyond ten years	229,675	225,357	3.88
Total	\$ 314,170	\$ 311,334	4.05%

The following table summarizes the investment securities with unrealized losses at June 30, 2009 and December 31, 2008 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>June 30, 2009</b>						
<b>Available-for-Sale</b>						
U.S. Government-sponsored entities and agencies	\$ 384,414	\$ (7,076)	\$	\$	\$ 384,414	\$ (7,076)
Mortgage-backed securities Agency	183,170	(212)	2,467	(32)	185,637	(244)
Mortgage-backed securities Non-agency	1		172,800	(57,226)	172,801	(57,226)
States and political subdivisions	143,831	(5,344)	10,633	(764)	154,464	(6,108)
Pooled trust preferred securities			16,353	(22,176)	16,353	(22,176)
Other securities	9,260	(4,618)	35,197	(1,617)	44,457	(6,235)
Total available-for-sale	\$ 720,676	\$ (17,250)	\$ 237,450	\$ (81,815)	\$ 958,126	\$ (99,065)
<b>Held-to-Maturity</b>						
U.S. Government-sponsored entities and agencies	\$ 193,838	\$ (4,341)	\$	\$	\$ 193,838	\$ (4,341)
Other securities			4,856	(466)	4,856	(466)
Total held-to-maturity	\$ 193,838	\$ (4,341)	\$ 4,856	\$ (466)	\$ 198,694	\$ (4,807)

**December 31, 2008****Available-for-Sale**

Mortgage-backed securities						
Agency	\$ 66,047	\$ (212)	\$ 33,689	\$ (378)	\$ 99,736	\$ (590)
Mortgage-backed securities						
Non-agency	83,360	(13,259)	116,192	(47,043)	199,552	(60,302)
States and political						
subdivisions	121,276	(5,072)			121,276	(5,072)
Pooled trust preferred						
securities			19,668	(29,186)	19,668	(29,186)
Other securities	81,326	(7,793)	10,117	(1,676)	91,443	(9,469)
Total available-for-sale	\$ 352,009	\$ (26,336)	\$ 179,666	\$ (78,283)	\$ 531,675	\$ (104,619)

**Held-to-Maturity**

Other securities	\$	\$	\$ 8,315	\$ (359)	\$ 8,315	\$ (359)
Total held-to-maturity	\$	\$	\$ 8,315	\$ (359)	\$ 8,315	\$ (359)

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Proceeds from sales and calls of securities available for sale were \$627.4 million and \$582.5 million for the six months ended June 30, 2009 and 2008, respectively. Gross gains of \$16.8 million and \$7.3 million and gross losses of \$0.9 million and \$0.7 million were realized on these sales during 2009 and 2008, respectively. Also impacting earnings in 2009 are other-than-temporary impairment charges related to credit loss on six trust preferred securities in the amount of \$10.3 million, described below.

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 Statement of Financial Accounting Standards ( 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 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 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 EITF 99-20 that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the EITF 99-20 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. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, 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.

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As of June 30, 2009, Old National's security portfolio consisted of 1,157 securities, 276 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, 2009, the Company's securities portfolio contained non-agency collateralized mortgage obligations with a market value of \$189.8 million which had net unrealized losses of approximately \$56.8 million. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of EITF 99-20. Four of these securities were downgraded during the quarter and as of June 30, 2009 eight of these securities were rated below investment grade with grades ranging from B3 to Caa1. 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 current loan status. The loans in the current 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 as of June 30, 2009, Old National did not record any other-than-temporary impairment on these securities.

**Pooled Trust Preferred Securities**

Seven of the pooled trust preferred securities in our portfolio fall within the scope of EITF 99-20 and include \$24.5 million book value. These securities were rated A2 and A3 at inception, but at June 30, 2009, Moody's rated one security Baa2, two securities Caa3 and four securities Ca. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National's note class. Upon completion of the June 30, 2009 analysis, our model indicated other-than-temporary impairment on six of these securities, all of which experienced additional defaults or deferrals during the period. For the six months ended June 30, 2009, these six securities had other-than-temporary-impairment losses of \$23.7 million, of which \$10.2 million was recorded as expense and \$13.5 million was recorded in other comprehensive income. These six securities remained classified as available for sale at June 30, 2009, and together, the seven securities subject to EITF 99-20 accounted for \$13.7 million of the unrealized loss in the pooled trust preferred securities category at June 30, 2009.

The following table details the six pooled trust preferred securities securities with other-than-temporary-impairment, their credit rating at June 30, 2009 and the related credit losses recognized in earnings:

MM	Reg Div	
Community	Funding	Reg Div
Funding IX	2004	

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	Tropc 2003 Rated Caa3	Rated Caa3	Rated Ca	Pretsl XV Rated Ca	Pretsl XII Rated Ca	Funding 2005 Rated Ca	Total
Amount of other-than-temporary- impairment related to credit loss at January 1, 2009	\$	\$	\$	\$	\$	\$	\$
Addition	828	282	1,281				2,391
Amount of other-than-temporary- impairment related to credit loss at March 31, 2009	828	282	1,281				2,391
Addition	1,583	1,178	2,915	895	810	483	7,864
Amount of other-than-temporary- impairment related to credit loss at June 30, 2009	\$ 2,411	\$ 1,460	\$ 4,196	\$ 895	\$ 810	\$ 483	\$ 10,255

**Table of Contents****NOTE 7 LOANS HELD FOR SALE**

Effective January 1, 2008, residential loans that Old National has committed to sell are recorded at fair value in accordance with SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*. Prior to this, these residential loans had been recorded at the lower of cost or market value. At June 30, 2009 and December 31, 2008, Old National had residential loans held for sale of \$25.2 million and \$17.2 million, respectively.

At June 30, 2009, Old National had finance leases held for sale of \$370.2 million. The leases are being marketed by an independent third party and the company anticipates that the majority of these transactions will close during the third quarter of 2009. The leases were reclassified to leases held for sale at the lower of cost or fair value, resulting in no write-down of the leases, but eliminating the need for \$1.6 million of related FAS 5 historical loss allocations in the allowance for loan losses. The portfolio of leases had maturities ranging from 1 to 19 years and interest rates ranging from 2.57% to 13.21%. All of the leases are current. The majority of the leases held for sale are to municipalities, with various types of equipment securing the leases.

During the first six months of 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. During the first six months of 2008, commercial loans held for investment of \$2.2 million were reclassified to loans held for sale at the lower of cost or fair value and sold, with no write-down on the loans transferred.

**NOTE 8 ALLOWANCE FOR LOAN LOSSES**

Activity in the allowance for loan losses was as follows:

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
(dollars in thousands)	<b>2009</b>	<b>2008</b>
Balance, January 1	\$ 67,087	\$ 56,463
Additions:		
Provision charged to expense	30,855	27,605
Provision related to leases transferred to held for sale	(1,587)	
Deductions:		
Write-downs from loans transferred to held for sale	572	
Loans charged-off	31,895	26,650
Recoveries	(6,213)	(4,669)
Net charge-offs	26,254	21,981
Balance, June 30	\$ 70,101	\$ 62,087

Individually impaired loans were as follows:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
(dollars in thousands)		
Impaired loans without an allowance for loan losses allocation	\$ 14,554	\$ 13,968
Impaired loans with an allowance for loan losses allocation	48,174	38,425
Total impaired loans	\$ 62,728	\$ 52,393
Allowance for loan losses allocated to impaired loans	\$ 20,426	\$ 13,599



For the six months ended June 30, 2009 and 2008, the average balance of impaired loans was \$60.3 million and \$49.2 million, respectively, for which no interest income was recorded. No additional funds are committed to be advanced in connection with impaired loans. Loans deemed impaired are evaluated using the fair value of the underlying collateral.

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Nonperforming loans were as follows:

(dollars in thousands)	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Nonaccrual loans	\$ 77,735	\$ 64,041
Total nonperforming loans	\$ 77,735	\$ 64,041
Past due loans (90 days or more and still accruing)	\$ 2,323	\$ 2,908

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

From time to time, Old National may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. Loans modified in a troubled debt restructuring are placed on nonaccrual status until the Company determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. At June 30, 2009, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled \$0.6 million.

**NOTE 9 GOODWILL AND OTHER INTANGIBLE ASSETS**

The following table shows the changes in the carrying amount of goodwill by segment for the six months ended June 30, 2009 and 2008:

(dollars in thousands)	<b>Community Banking</b>	<b>Other</b>	<b>Total</b>
Balance, January 1, 2009	\$ 119,325	\$ 39,873	\$ 159,198
Goodwill acquired during the period	8,686		8,686
Balance, June 30, 2009	\$ 128,011	\$ 39,873	\$ 167,884
Balance, January 1, 2008	\$ 119,325	\$ 39,873	\$ 159,198
Adjustments to goodwill			
Balance, June 30, 2008	\$ 119,325	\$ 39,873	\$ 159,198

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2008 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.

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The gross carrying amount and accumulated amortization of other intangible assets at June 30, 2009 and December 31, 2008 was as follows:

(dollars in thousands)	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization and Impairment</b>	<b>Net Carrying Amount</b>
<b>June 30, 2009</b>			
Amortized intangible assets:			
Core deposit	\$ 26,810	\$ (8,671)	\$ 18,139
Customer business relationships	25,753	(11,187)	14,566
Customer loan relationships	4,413	(970)	3,443
<b>Total intangible assets</b>	<b>\$ 56,976</b>	<b>\$ (20,828)</b>	<b>\$ 36,148</b>
<b>December 31, 2008</b>			
Amortized intangible assets:			
Core deposit	\$ 15,623	\$ (7,203)	\$ 8,420
Customer business relationships	25,753	(10,189)	15,564
Customer loan relationships	4,413	(769)	3,644
<b>Total intangible assets</b>	<b>\$ 45,789</b>	<b>\$ (18,161)</b>	<b>\$ 27,628</b>

Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 7 to 25 years. Old National reviews intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Old National recorded \$11.2 million of other intangibles associated with the acquisition of the branch banking network of Citizens Financial Group in the first quarter of 2009, which is included in the Community Banking column for segment reporting. During the first quarter of 2008, Old National recorded \$0.2 million of other intangibles associated with the purchase of an insurance book of business. The insurance subsidiary is included in the Other column for segment reporting. During the second quarter of 2008, Old National recorded \$0.7 million for impairment of intangibles due to the loss of a significant insurance client at one of its insurance subsidiaries. The insurance subsidiary is included in the Other column for segment reporting. Total amortization expense associated with other intangible assets for the six months ended June 30 was \$2.7 million in 2009 and \$1.8 million in 2008.

Estimated amortization expense for future years is as follows:

(dollars in thousands)	
2009 remaining	\$ 3,320
2010	6,130
2011	5,546
2012	4,840
2013	4,050
Thereafter	12,262
<b>Total</b>	<b>\$ 36,148</b>



**Table of Contents****NOTE 10 ASSETS HELD FOR SALE**

Assets held for sale are summarized as follows:

(dollars in thousands)	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>Assets held for sale:</b>		
Land	\$ 641	\$ 791
Building and improvements	2,773	3,401
Total	3,414	4,192
Accumulated depreciation	(1,847)	(2,200)
Assets held for sale net	\$ 1,567	\$ 1,992

During the second quarter of 2009, Old National sold one financial center with a carrying value of approximately \$0.4 million in a sale-leaseback transaction with an unrelated party.

Assets remaining held for sale at June 30, 2009 include three financial centers which are actively being marketed. Old National plans to continue occupying these properties under long-term lease arrangements. See note 17 to the consolidated financial statements for additional information on Old National's long-term lease arrangements.

**NOTE 11 SHORT-TERM BORROWINGS**

The following table presents the distribution of Old National's short-term borrowings and related weighted-average interest rates as of June 30, 2009:

(dollars in thousands)	<b>Federal Funds Purchased</b>	<b>Repurchase Agreements</b>	<b>Other Short-term Borrowings</b>	<b>Total</b>
<b>2009</b>				
Outstanding at June 30, 2009	\$ 143,411	\$ 284,847	\$ 114,160	\$ 542,418
Average amount outstanding	264,609	291,958	134,465	691,032
Maximum amount outstanding at any month-end	488,392	292,478	158,809	
Weighted average interest rate:				
During six months ended				
June 30, 2009	0.20%	0.23%	0.36%	0.24%
At June 30, 2009	0.13	0.17	0.22	0.17

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

During the first quarter of 2008, Old National entered into a \$100 million revolving credit facility at the parent company level. Three unrelated financial institutions serve as lenders for the facility. During part of 2008, \$55 million was outstanding under the revolving credit facility and was included in other short-term borrowings. The facility had an interest rate of LIBOR plus 1.00% and a maturity of 364 days. There was no amount outstanding as of December 31, 2008. On February 13, 2009, the line of credit was terminated.

During the second quarter of 2009, Old National entered into a \$30 million revolving credit facility at the parent level. The facility had an interest rate of LIBOR plus 2.00% and a maturity of 364 days. There was no amount outstanding as of June 30, 2009.



**Table of Contents****Term Auction Facility**

On January 2, 2009, Old National borrowed \$100 million from the Federal Reserve under its Term Auction Facility. The borrowing had an interest rate of .20% and a maturity of 83 days. On January 15, 2009, Old National borrowed an additional \$50 million from the Federal Reserve under the Term Auction Facility. The additional borrowing had an interest rate of .25% and a maturity of 28 days. On February 12, 2009, the \$50 million borrowing was rolled over into new debt with an interest rate of .25% and a maturity date of March 12, 2009. On March 12, 2009, the \$50 million borrowing was rolled over into new debt with an interest rate of .25% and a maturity date of April 9, 2009. On April 9, 2009, the \$50 million debt matured and was replaced with \$100 million of new debt with an interest rate of .25% and a maturity date of May 7, 2009. On April 23, 2009, Old National borrowed an additional \$50 million with an interest rate of .25% and a maturity date of July 16, 2009. On June 4, 2009, Old National borrowed an additional \$50 million with an interest rate of .25% and a maturity date of July 2, 2009.

**NOTE 12 FINANCING ACTIVITIES**

The following table summarizes Old National's and its subsidiaries' other borrowings at June 30, 2009, and December 31, 2008:

(dollars in thousands)	June 30, 2009	December 31, 2008
<b>Old National Bancorp:</b>		
Senior unsecured note (fixed rate 5.00%) maturing May 2010	\$ 50,000	\$ 50,000
Junior subordinated debenture (fixed rates 6.27% to 8.00% and variable rate 3.65%) maturing April 2032 to March 2035	108,000	108,000
SFAS 133 fair value hedge and other basis adjustments	(749)	(771)
<b>Old National Bank:</b>		
Securities sold under agreements to repurchase (fixed rates 2.45% to 4.06%) maturing December 2010 to October 2012	99,000	99,000
Federal Home Loan Bank advances (fixed rates 2.11% to 8.34%) maturing September 2009 to January 2023	399,871	425,198
Subordinated bank notes (fixed rate 6.75%) maturing October 2011	150,000	150,000
Capital lease obligation	4,370	4,390
SFAS 133 fair value hedge and other basis adjustments	(187)	(950)
Total other borrowings	\$ 810,305	\$ 834,867

Contractual maturities of other borrowings at June 30, 2009, were as follows:

(dollars in thousands)		
Due in 2009		\$ 2,020
Due in 2010		99,043
Due in 2011		275,046
Due in 2012		150,688
Due in 2013		106,405
Thereafter		178,039
SFAS 133 fair value hedge and other basis adjustments		(936)
Total		\$ 810,305

**FEDERAL HOME LOAN BANK**

Federal Home Loan Bank advances had weighted-average rates of 3.82% and 3.81% at June 30, 2009, and December 31, 2008, respectively. These borrowings are collateralized by investment securities and residential real

estate loans up to 150% of outstanding debt.



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**SUBORDINATED BANK NOTES**

Subordinated bank notes qualify as Tier 2 Capital for regulatory purposes, subject to certain limitations, and are in accordance with the senior and subordinated global bank note program in which Old National Bank may issue and sell up to a maximum of \$1 billion. Notes issued by Old National Bank under the global note program are not obligations of, or guaranteed by, Old National Bancorp.

**JUNIOR SUBORDINATED DEBENTURES**

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

Old National guarantees the payment of distributions on the trust preferred securities issued by ONB Capital Trust II. ONB Capital Trust II issued \$100 million in preferred securities in April 2002. The preferred securities have a liquidation amount of \$25 per share with a cumulative annual distribution rate of 8.0% or \$2.00 per share payable quarterly and maturing on April 15, 2032. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by ONB Capital Trust II. Old National may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole (or in part from time to time) on or after April 12, 2007. Costs associated with the issuance of these trust preferred securities totaling \$3.3 million in 2002 were capitalized and are being amortized through the maturity dates of the securities. The unamortized balance is included in other assets in the consolidated balance sheet.

During February 2007, Old National acquired St. Joseph Capital Trust I and St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust I and St. Joseph Capital Trust II. St. Joseph Capital Trust I issued \$3.0 million in preferred securities in July 2003. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 305 basis points, payable quarterly and maturing on July 11, 2033. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust I. St. Joseph Capital Trust II issued \$5.0 million in preferred securities in March 2005. The preferred securities have a cumulative annual distribution rate of 6.27% until March 2010 when it will carry a variable rate of interest priced at the three-month LIBOR plus 175 basis points, payable quarterly and maturing on March 17, 2035. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust II. Old National may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole (or in part 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 financial center in Owensboro, Kentucky, which extends for 25 years with one renewal option for 10 years. The economic substance of this lease is that Old National is financing the acquisition of the building through the lease and accordingly, the building is recorded as an asset and the lease is recorded as a liability. The fair value of the capital lease obligation was estimated using a discounted cash flow analysis based on Old National's current incremental borrowing rate for similar types of borrowing arrangements.

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At June 30, 2009, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)	
2009 remaining	\$ 194
2010	390
2011	390
2012	390
2013	390
Thereafter	11,314
Total minimum lease payments	13,068
Less amounts representing interest	8,698
Present value of net minimum lease payments	\$ 4,370

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

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

Old National contributed \$0.2 million to cover benefit payments from the Restoration Plan during the first six months of 2009. Old National expects to contribute an additional \$0.2 million to cover benefit payments from the Restoration Plan during the remainder of 2009.

The net periodic benefit cost and its components were as follows for the three and six months ended June 30:

(dollars in thousands)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Interest cost	\$ 493	\$ 535	\$ 986	\$ 1,071
Expected return on plan assets	(482)	(792)	(965)	(1,584)
Recognized actuarial loss	363	158	726	316
Settlement	(350)	434		434
Net periodic benefit cost	\$ 24	\$ 335	\$ 747	\$ 237

**NOTE 14 STOCK-BASED COMPENSATION**

During May 2008, shareholders approved the Company's 2008 Incentive Compensation Plan which authorizes up to a maximum of 1.0 million shares plus certain shares covered under the 1999 Equity Incentive Plan. At June 30, 2009, 1.4 million shares remained available for issuance. The granting of awards to key employees is typically in the form of options to purchase capital stock or restricted stock.

*Stock Options*

The Company granted 177 thousand stock options during the first six months of 2009. Using the Black-Scholes option pricing model, the Company estimated the fair value of these stock options to be \$0.3 million. The Company will

expense this amount ratably over the three-year vesting period. The assumptions used in the option pricing model and the determination of stock option expense were an expected volatility of 28.8%; a risk free interest rate of 2.08%; an expected option term of six years; a 5.31% dividend yield; and a forfeiture rate of 7%. These options expire in ten years.

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Old National recorded \$0.1 million of stock based compensation expense, net of tax, during the first six months of 2009 as compared to \$0.1 million for the first six months of 2008.

*Restricted Stock Awards*

The Company granted 80 thousand time-based restricted stock awards to certain key officers during 2009, with shares vesting at the end of a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of June 30, 2009, unrecognized compensation expense was estimated to be \$3.2 million for unvested restricted share awards.

Old National recorded expense of \$0.3 million, net of tax benefit, during the first six months of 2009, compared to expense of \$1.0 million during the first six months of 2008 related to the vesting of restricted share awards. Included in the first six months of 2009 is the reversal of \$0.8 million of expense associated with certain performance-based restricted stock grants.

*Restricted Stock Units*

The Company granted 106 thousand shares of performance based restricted stock units to certain key officers during 2009, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets.

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

Old National recorded \$0.1 million of stock based compensation expense, net of tax, during the first six months of 2009. The Company did not grant restricted stock units in 2008.

**NOTE 15 INCOME TAXES**

Following is a summary of the major items comprising the differences in taxes from continuing operations computed at the federal statutory rate and as recorded in the consolidated statement of income for the three and six months ended June 30:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(dollars in thousands)	2009	2008	2009	2008
Provision at statutory rate of 35%	\$ 2,679	\$ 8,513	\$ 5,013	\$ 13,352
Tax-exempt income	(4,060)	(3,921)	(8,231)	(7,694)
Reversal of portion of unrecognized tax benefits				(6,611)
State income taxes	(675)	354	(1,481)	358
Other, net	75	(98)	(18)	(72)
Income tax expense (benefit)	\$ (1,981)	\$ 4,848	\$ (4,717)	\$ (667)
Effective tax rate	(25.9)%	19.9%	(32.9)%	(1.7)%

For the three months ended June 30, 2009, the effective tax rate was lower than the three months ended June 30, 2008. The main factor for the decrease in the effective tax rate for the three months ended June 30, 2009, was that the tax-exempt income comprised a higher percentage of pre-tax income in the three months ended June 30, 2009 than at June 30, 2008. For the six months ended June 30, 2009, the effective tax rate was lower than the six months ended June 30, 2008. The main factor for the decrease in the effective tax rate for the six months ended June 30, 2009, was that the tax-exempt income comprised a higher percentage of pre-tax income in the six months ended June 30, 2009 than at June 30, 2008.

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

The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. Unrecognized state income tax benefits are reported net of their related deferred federal income tax benefit.

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

(dollars in thousands)	<b>2009</b>
Balance at January 1	\$ 7,513
Additions based on tax positions related to the current year	52
Balance at June 30	\$ 7,565

Approximately \$1.9 million of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods.

**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 \$150.0 million and \$55.1 million at June 30, 2009 and December 31, 2008, respectively. 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 June 30, 2009, the notional amount of the interest rate lock commitments and forward commitments were \$39.9 million and \$64.2 million, respectively. At December 31, 2008, the notional amount of the interest rate lock commitments and forward commitments were \$20.6 million and \$37.0 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 in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

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 \$511.1 million and \$511.1 million, respectively, at June 30, 2009. At December 31, 2008, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were \$484.0 million and \$484.0 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.

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

	<b>Asset Derivatives</b>			
	<b>June 30, 2009</b>		<b>December 31, 2008</b>	
(dollars in thousands)	<b>Balance Sheet Location</b>	<b>Fair Value</b>	<b>Balance Sheet Location</b>	<b>Fair Value</b>
<b>Derivatives designated as hedging instruments under Statement 133</b>				
Interest rate contracts	Other assets	\$ 541	Other assets	\$ 1
<b>Total derivatives designated as hedging instruments under Statement 133</b>		<b>\$ 541</b>		<b>\$ 1</b>
<b>Derivatives not designated as hedging instruments under Statement 133</b>				
Interest rate contracts	Other assets	\$ 32,576	Other assets	\$ 45,737
Commodity contracts	Other assets		Other assets	130
Foreign exchange contracts	Other assets		Other assets	441
Mortgage contracts	Other assets	589	Other assets	459
<b>Total derivatives not designated as hedging instruments under Statement 133</b>		<b>\$ 33,165</b>		<b>\$ 46,767</b>
<b>Total derivative assets</b>		<b>\$ 33,706</b>		<b>\$ 46,768</b>

	<b>Liability Derivatives</b>			
	<b>June 30, 2009</b>		<b>December 31, 2008</b>	
(dollars in thousands)	<b>Balance Sheet Location</b>	<b>Fair Value</b>	<b>Balance Sheet Location</b>	<b>Fair Value</b>
<b>Derivatives not designated as hedging instruments under Statement 133</b>				
Interest rate contracts	Other liabilities	\$ 32,173	Other liabilities	\$ 46,338
Commodity contracts	Other liabilities		Other liabilities	130
Foreign exchange contracts	Other liabilities		Other liabilities	441
Mortgage contracts	Other liabilities	73	Other liabilities	505
<b>Total derivatives not designated as hedging instruments under Statement 133</b>		<b>\$ 32,246</b>		<b>\$ 47,414</b>
<b>Total derivative liabilities</b>		<b>\$ 32,246</b>		<b>\$ 47,414</b>

The effect of derivative instruments on the Consolidated Statement of Income for the three and six months ended June 30, 2009 and 2008 are as follows:

<b>Derivatives Not Designated as</b>	<b>Location of Gain or (Loss)</b>	<b>Amount of Gain or (Loss)</b>
--------------------------------------	-----------------------------------	---------------------------------

<b>Hedging Instruments under Statement 133</b>	<b>Recognized in Income on Derivative</b>	<b>Recognized in Income on Derivative</b>	
Interest rate contracts (1)	Interest income / (expense)	\$ (68)	\$ 123
Interest rate contracts (3)	Other income / (expense)	455	(331)
Mortgage contracts	Mortgage banking revenue	234	19
Total		\$ 621	\$ (189)

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(dollars in thousands)		<b>Six months Ended June 30, 2009</b>	<b>Six months Ended June 30, 2008</b>
<b>Derivatives in Statement 133 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>	
Interest rate contracts (1)	Interest income / (expense)	\$ 1,101	\$ 676
Interest rate contracts (2)	Other income / (expense)	72	71
Total		\$ 1,173	\$ 747

<b>Derivatives Not Designated as Hedging Instruments under Statement 133</b>	<b>Location of Gain or (Loss) Recognized in Income on Derivative</b>	<b>Amount of Gain or (Loss) Recognized in Income on Derivative</b>	
Interest rate contracts (1)	Interest income / (expense)	\$ (428)	\$ 123
Interest rate contracts (3)	Other income / (expense)	927	(1,044)
Mortgage contracts	Mortgage banking revenue	562	(115)
Total		\$ 1,061	\$ (1,036)

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

(2) Amounts represent ineffectiveness on derivatives designated as fair value hedges under SFAS 133.

(3) Includes both the valuation differences between the customer and offsetting counterparty swaps as well as



the change in  
the value of the  
derivative  
instruments  
entered into to  
offset the  
change in fair  
value of certain  
retail certificates  
of deposit which  
the company  
elected to record  
at fair value  
under SFAS  
159. See Note  
20 to the  
consolidated  
financial  
statements.

#### **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 Bancorp 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 also permits Old National to file a new motion for summary judgment with respect to issues that have not been resolved by the Court. 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.



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In December 2006, Old National entered into a sale leaseback agreement with an unrelated third party for its three main buildings in downtown Evansville, Indiana. Old National sold assets with a carrying value of \$69.9 million, received approximately \$79.0 million in cash and incurred \$0.4 million of selling costs. The \$8.7 million deferred gain will be amortized over the term of the lease. The agreement requires rent payments of approximately \$6.6 million per year over the next 23 years.

During 2007, seventy-three financial centers were sold in a series of sale leaseback transactions to an unrelated party. Old National received cash proceeds of \$176.3 million, net of selling costs. The properties sold had a carrying value of \$65.3 million, resulting in a gain of \$111.1 million. In 2007, \$4.7 million of this gain was recognized, the remainder has been deferred and is being amortized over the term of the leases. The leases have terms of ten to twenty-four years, and Old National has the right, at its option, to extend the term of the leases for four additional successive terms of five years each, upon specified terms and conditions. Under the agreements signed in 2007, Old National is obligated to pay base rents for the properties in an aggregate annual amount of \$14.0 million in the first year.

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

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

During 2009, Old National sold two financial centers in sale leaseback transactions to unrelated parties. Old National received cash proceeds of \$1.4 million, net of selling costs. The properties sold had a carrying value of \$1.0 million. The \$0.4 million deferred gain will be amortized over the term of the leases. The leases have terms of fifteen years. Under the lease agreements, Old National is obligated to pay a base rent of \$0.1 million per year.

In March 2009, Old National acquired the Indiana retail branch banking network of Citizens Financial Group. The network included 65 leased locations. Old National intends to close or merge 11 of these locations into existing branch locations during 2009. The leases have term of less than one year to ten years. Under the lease agreements, Old National is obligated to pay a base rent of approximately \$2.6 million per year.

**CREDIT-RELATED FINANCIAL INSTRUMENTS**

In the normal course of business, Old National's banking affiliates have entered into various agreements to extend credit, including loan commitments of \$1.049 billion and standby letters of credit of \$101.7 million at June 30, 2009. At June 30, 2009, approximately \$991 million of the loan commitments had fixed rates and \$58 million had floating rates, with the fixed interest rates ranging from 0.5% to 18%. At December 31, 2008, loan commitments were \$1.124 billion and standby letters of credit were \$108.4 million. These commitments are not reflected in the consolidated financial statements. At June 30, 2009 and December 31, 2008, the balance of the allowance for unfunded loan commitments was \$4.1 million and \$3.5 million, respectively.

At June 30, 2009 and December 31, 2008 Old National had credit extensions of \$27.5 million and \$29.0 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients. At June 30, 2009 and December 31, 2008, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling \$24.1 million and \$25.0 million, respectively. Old National did not provide collateral for the remaining credit extensions.

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**NOTE 18 FINANCIAL GUARANTEES**

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with 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 June 30, 2009, the notional amount of standby letters of credit was \$101.7 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.5 million.

During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap has a notional amount of \$9.4 million at June 30, 2009.

**NOTE 19 SEGMENT INFORMATION**

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

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

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

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

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

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Summarized financial information concerning segments is shown in the following table for the three and six months ended June 30:

(dollars in thousands)	<b>Community Banking</b>	<b>Treasury</b>	<b>Other</b>	<b>Total</b>
<b>Three months ended June 30, 2009</b>				
Net interest income	\$ 66,783	\$ (4,782)	\$ (1,234)	\$ 60,767
Provision for loan losses	11,978	85	(95)	11,968
Noninterest income	26,525	3,308	15,773	45,606
Noninterest expense	68,193	2,810	15,748	86,751
Income (loss) before income taxes	13,137	(4,369)	(1,114)	7,654
Total assets	4,754,079	3,138,161	119,935	8,012,175
<b>Three months ended June 30, 2008</b>				
Net interest income	\$ 64,813	\$ (2,652)	\$ (817)	\$ 61,344
Provision for loan losses	5,493	207		5,700
Noninterest income	21,382	5,236	16,895	43,513
Noninterest expense	56,193	1,148	17,493	74,834
Income before income taxes	24,509	1,229	(1,415)	24,323
Total assets	4,971,884	2,514,308	115,594	7,601,786
<b>Six months ended June 30, 2009</b>				
Net interest income	\$ 136,241	\$ (14,536)	\$ (1,740)	\$ 119,965
Provision for loan losses	29,278	85	(95)	29,268
Noninterest income	46,701	7,508	33,632	87,841
Noninterest expense	127,671	4,258	32,286	164,215
Income before income taxes	25,993	(11,371)	(299)	14,323
Total assets	4,754,079	3,138,161	119,935	8,012,175
<b>Six months ended June 30, 2008</b>				
Net interest income	\$ 128,053	\$ (5,681)	\$ (1,238)	\$ 121,134
Provision for loan losses	27,379	226		27,605
Noninterest income	40,483	11,879	38,027	90,389
Noninterest expense	108,108	2,483	35,179	145,770
Income (loss) before income taxes	33,049	3,489	1,610	38,148
Total assets	4,971,884	2,514,308	115,594	7,601,786

**NOTE 20 FAIR VALUE**

Effective January 1, 2008, the Company adopted SFAS No. 157 and SFAS No. 159. Both standards address aspects of the expanding application of fair value accounting.

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

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

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

by observable market data.

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

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

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

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

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

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

Assets and liabilities measured at fair value under SFAS No. 157 on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

**Fair Value Measurements at June 30, 2009 Using Significant**

	<b>Carrying Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>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	\$ 2,249,408		\$ 2,233,055	\$ 16,353
Residential loans held for sale	25,249		25,249	
Derivative assets	33,706		33,706	
<b>Financial Liabilities</b>				
Certain retail certificates of deposit				
Derivative liabilities	32,246		32,246	

**Fair Value Measurements at December 31, 2008 Using Significant**

	<b>Carrying Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>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	\$ 2,125,026		\$ 2,105,358	\$ 19,668
Residential loans held for sale	17,155		17,155	
Derivative assets	46,768		46,768	

**Financial Liabilities**

Certain retail certificates of deposit	<b>49,309</b>	<b>49,309</b>
Derivative liabilities	<b>47,414</b>	<b>47,414</b>



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The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 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	\$ 19,668
Accretion/amortization of discount or premium	(14)
Payments received	(99)
Credit loss write-downs	(10,255)
Increase/decrease in fair value of securities	7,053
Transfers in and/or out of Level 3	
Ending balance, June 30, 2009	\$ 16,353

Included in the income statement is \$14 thousand in interest expense from the amortization of discounts on securities. The increase in market 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.

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

	<b>Fair Value Measurements at June 30, 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>				
Impaired loans	\$ 27,748			\$ 27,748
Impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of \$48.1 million, with a valuation allowance of \$20.4 million at June 30, 2009.				

	<b>Fair Value Measurements at December 31, 2008 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)				