OLD NATIONAL BANCORP /IN/
Form 10-Q
April 30, 2010

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2010

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____________ to ____________
Commission File Number 1-15817

OLD NATIONAL BANCORP
(Exact name of Registrant as specified in its charter)

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

(812) 464-1294
(Registrant s telephone number, including area code)

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

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 o No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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 87,161,000 shares outstanding at March 31, 2010.

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OLD NATIONAL BANCORP
CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	March 31, 2010 (unaudited)	December 31, 2009	March 31, 2009 (unaudited)
Assets			
Cash and due from banks	**$ 121,775**	$ 144,156	$ 131,507
Money market and other interest-earning investments	**258,385**	353,120	42,588
Total cash and cash equivalents	**380,160**	497,276	174,095
Investment securities available-for-sale, at fair value			
U.S. Treasury	**51,218**	1,003	
U.S. Government-sponsored entities and agencies	**857,966**	914,238	1,019,561
Mortgage-backed securities	**891,473**	882,726	1,045,142
States and political subdivisions	**559,719**	534,595	485,083
Other securities	**159,650**	153,657	160,517
Investment securities available-for-sale	**2,520,026**	2,486,219	2,710,303
Investment securities held-to-maturity, at amortized cost (fair value $458,070, $399,953 and $95,334 respectively)	**450,036**	396,009	92,989
Federal Home Loan Bank stock, at cost	**36,090**	36,090	41,090
Residential loans held for sale, at fair value	**4,009**	17,530	19,609
Finance leases held for sale	**52,225**	55,260	
Loans:			
Commercial	**1,225,999**	1,287,168	1,809,431
Commercial real estate	**1,041,449**	1,062,910	1,133,851
Residential real estate	**403,007**	403,391	488,539
Consumer credit, net of unearned income	**1,044,488**	1,082,017	1,189,711
Total loans	**3,714,943**	3,835,486	4,621,532
Allowance for loan losses	**(72,098)**	(69,548)	(71,775)
Net loans	**3,642,845**	3,765,938	4,549,757
Premises and equipment, net	**53,923**	52,399	58,586
Accrued interest receivable	**44,583**	49,340	48,248
Goodwill	**167,884**	167,884	167,791
Other intangible assets	**30,686**	32,307	37,813
Company-owned life insurance	**224,540**	224,652	223,816
Other assets	**211,243**	224,431	231,971
Total assets	**$ 7,818,250**	$ 8,005,335	$ 8,356,068
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 1,179,809**	$ 1,188,343	$ 1,039,333
Interest-bearing:			

NOW	**1,232,450**	1,354,337	1,257,480
Savings	**1,045,233**	972,176	918,837
Money market	**381,903**	381,078	522,841
Time (including $0, $0 and $6,034, respectively, at fair value)	**1,852,097**	2,007,554	2,116,247
Total deposits	**5,691,492**	5,903,488	5,854,738
Short-term borrowings	**357,983**	331,144	827,092
Other borrowings	**700,383**	699,059	809,958
Accrued expenses and other liabilities	**212,872**	227,818	232,488
Total liabilities	**6,962,730**	7,161,509	7,724,276
Shareholders Equity			
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding			
Preferred stock, series T, no par value, $100,000 liquidation value, 1,000 shares authorized, no shares issued and or outstanding			
Common stock, $1 stated value, 150,000 shares authorized, 87,161, 87,182 and 66,411 shares issued and outstanding, respectively	**87,161**	87,182	66,411
Capital surplus	**746,932**	746,775	571,755
Retained earnings	**34,204**	30,235	41,079
Accumulated other comprehensive loss, net of tax	**(12,777)**	(20,366)	(47,453)
Total shareholders equity	**855,520**	843,826	631,792
Total liabilities and shareholders equity	**$ 7,818,250**	$ 8,005,335	$ 8,356,068

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Three Months Ended March 31,	
(dollars in thousands, except per share data)	**2010**	**2009**
Interest Income		
Loans including fees:		
Taxable	**$ 44,907**	$ 51,694
Nontaxable	**2,180**	5,850
Investment securities, available-for-sale:		
Taxable	**20,796**	23,481
Nontaxable	**4,856**	5,799
Investment securities, held-to-maturity, taxable	**4,417**	1,098
Money market investments and federal funds sold	**186**	61
Total interest income	**77,342**	87,983
Interest Expense		
Deposits	**13,936**	17,790
Short-term borrowings	**249**	388
Other borrowings	**8,040**	10,607
Total interest expense	**22,225**	28,785
Net interest income	**55,117**	59,198
Provision for loan losses	**9,281**	17,300
Net interest income after provision for loan losses	**45,836**	41,898
Noninterest Income		
Wealth management fees	**4,287**	3,827
Service charges on deposit accounts	**11,946**	10,689
ATM fees	**5,527**	4,140
Mortgage banking revenue	**489**	1,728
Insurance premiums and commissions	**10,205**	11,410
Investment product fees	**2,053**	2,239
Company-owned life insurance	**845**	696
Net securities gains	**3,503**	5,577
Impairment on available-for-sale securities (includes losses of $578 and $15,288, net of $73 and $12,897 recognized in other comprehensive income, pre-tax, for the three months ended March 31, 2010 and 2009, respectively)	**(505)**	(2,391)
Gain on derivatives	**621**	483
Gain on sale leaseback transactions	**1,637**	1,589
Other income	**2,384**	2,248
Total noninterest income	**42,992**	42,235
Noninterest Expense		

Salaries and employee benefits		**42,444**		42,699
Occupancy		**12,240**		10,592
Equipment		**2,796**		2,314
Marketing		**1,362**		1,996
Data processing		**5,515**		4,891
Communication		**2,687**		2,551
Professional fees		**1,701**		2,642
Loan expense		**908**		875
Supplies		**780**		1,322
Loss on extinguishment of debt		**22**		405
FDIC assessment		**2,447**		2,084
Amortization of intangibles		**1,622**		1,002
Other expense		**2,536**		4,091
Total noninterest expense		**77,060**		77,464
Income before income taxes		**11,768**		6,669
Income tax expense (benefit)		**1,699**		(2,736)
Net income		**10,069**		9,405
Preferred stock dividends and discount accretion				(3,892)
Net income available to common stockholders	**$**	**10,069**	$	5,513
Net income per common share basic	**$**	**0.12**	$	0.08
Net income per common share diluted		**0.12**		0.08
Weighted average number of common shares outstanding basic		**86,752**		65,793
Weighted average number of common shares outstanding diluted		**86,797**		65,882
Dividends per common share	**$**	**0.07**	$	0.23

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

(dollars and shares in thousands)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity	Comprehensive Income
Balance, December 31, 2008	$ 97,358	$ 66,321	$ 569,875	$ 50,815	$ (53,504)	$ 730,865	
Comprehensive income							
Net income				9,405		9,405	$ 9,405
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					4,913	4,913	4,913
Reclassification adjustment on cash flows hedges, net of tax					709	709	709
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax					429	429	429
Total comprehensive income							$ 15,456
Dividends common stock				(15,227)		(15,227)	
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		(27)	(320)			(347)	
Stock based compensation expense			739			739	
Stock activity under incentive comp plans		(34)	104	(22)		48	
Balance, March 31, 2009	$	$ 66,411	$ 571,755	$ 41,079	$ (47,453)	$ 631,792	
Balance, December 31, 2009	**$**	**$ 87,182**	**$ 746,775**	**$ 30,235**	**$ (20,366)**	**$ 843,826**	
Comprehensive income							
Net income				**10,069**		**10,069**	**$ 10,069**
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					**7,036**	**7,036**	**7,036**
Transferred securities, net of tax					**(110)**	**(110)**	**(110)**
Reclassification adjustment on cash flows hedges, net of tax					**423**	**423**	**423**
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net					**240**	**240**	**240**

of tax							
Total comprehensive income							**$ 17,658**
Dividends common stock				**(6,082)**		**(6,082)**	
Common stock repurchased		**(41)**	**(438)**			**(479)**	
Stock based compensation expense			**576**			**576**	
Stock activity under incentive comp plans		**20**	**19**	**(18)**		**21**	
Balance, March 31, 2010	**$**	**$ 87,161**	**$ 746,932**	**$ 34,204**	**$ (12,777)**	**$ 855,520**	

(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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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Three Months Ended March 31, 2010	2009
Cash Flows From Operating Activities		
Net income	**$ 10,069**	$ 9,405
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**2,615**	1,536
Amortization and impairment of other intangible assets	**1,621**	1,002
Net premium (discount) amortization on investment securities	**1,056**	(620)
Restricted stock expense	**513**	646
Stock option expense	**63**	93
Provision for loan losses	**9,281**	17,300
Net securities gains	**(3,503)**	(5,577)
Impairment on available-for-sale securities	**505**	2,391
Gain on sale leasebacks	**(1,637)**	(1,589)
Gain on derivatives	**(621)**	(483)
Net gains on sales and write-downs of loans and other assets	**(551)**	(127)
Loss on extinguishment of debt	**22**	405
(Increase) decrease in cash surrender value of company owned life insurance	**112**	(690)
Residential real estate loans originated for sale	**(18,898)**	(57,880)
Proceeds from sale of residential real estate loans	**33,004**	56,129
Decrease in interest receivable	**4,757**	814
Decrease in other assets	**10,575**	3,398
Decrease in accrued expenses and other liabilities	**(12,907)**	(1,378)
Total adjustments	**26,007**	15,370
Net cash flows provided by operating activities	**36,076**	24,775
Cash Flows From Investing Activities		
Cash and cash equivalents of acquired banking branches, net		353,694
Purchases of investment securities available-for-sale	**(216,540)**	(836,865)
Purchases of investment securities held-to-maturity	**(65,141)**	
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**162,858**	184,695
Proceeds from sales of investment securities available-for-sale	**34,891**	78,343
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**9,821**	6,540
Proceeds from sale of loans	**2,753**	
Net principal collected from customers	**114,094**	131,814
Proceeds from sale of premises and equipment and other assets	**12**	9
Purchases of premises and equipment	**(4,143)**	(4,772)
Net cash flows provided by (used in) investing activities	**38,605**	(86,542)

Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Noninterest-bearing demand deposits	**(8,534)**	71,060
Savings, NOW and money market deposits	**(48,005)**	(69,822)
Time deposits	**(155,457)**	5,272
Short-term borrowings	**26,839**	177,469
Payments for maturities on other borrowings	**(91)**	(85)
Payments related to retirement of debt		(25,464)
Cash dividends paid on common stock	**(6,082)**	(15,227)
Cash dividends paid on preferred stock		(1,514)
Common stock repurchased	**(479)**	(347)
Proceeds from exercise of stock options, including tax benefit	**12**	
Repurchase of TARP preferred stock and warrants		(100,000)
Common stock issued		1,508
Net cash flows provided by (used in) financing activities	**(191,797)**	42,850
Net increase (decrease) in cash and cash equivalents	**(117,116)**	(18,917)
Cash and cash equivalents at beginning of period	**497,276**	193,012
Cash and cash equivalents at end of period	**$ 380,160**	$ 174,095
Supplemental cash flow information:		
Total interest paid	**$ 20,738**	$ 26,370
Total taxes paid (net of refunds)	**$ (5,125)**	$ 2

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

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

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

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2010 presentation. Such reclassifications had no effect on net income.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

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

At March 31, 2010, Old National had loan participations, which qualified as participating interests, with other financial institutions. The loans involved totaled $60.0 million, of which $29.8 million had been sold to other financial institutions and $30.2 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder, involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder, all cash flows are divided among the participating interest holders in proportion to each holder s share of ownership and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

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

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FASB ASC 820-10 In January 2010, the FASB issued an update (ASU No. 2010-06, Improving Disclosures about Fair Value Measurements) impacting FASB ASC 820-10, Fair Value Measurements and Disclosures. The amendments in this update require new disclosures about significant transfers in and out of Level 1 and Level 2 fair value measurements. The amendments also require a reporting entity to provide information about activity for purchases, sales, issuances and settlements in Level 3 fair value measurements and clarify disclosures about the level of disaggregation and disclosures about inputs and valuation techniques. This update became effective for the Company for interim and annual reporting periods beginning after December 15, 2009 and did not have a material impact on the Company s consolidated financial position or results of operations.

FASB ASC 855 In March 2010, the FASB issued an update (ASU No. 2010-11, Scope Exception Related to Embedded Credit Derivatives) impacting FASB ASC 815-15, Derivatives and Hedging Embedded Derivatives. The amendments clarify the scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. This update becomes effective for the Company for the interim reporting period beginning after June 15, 2010. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact on the Company s consolidated financial statements 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 consisted of 65 branches and a training facility. The branches are located primarily in the Indianapolis area, with additional locations in the Lafayette, Fort Wayne, Anderson and Bloomington, Indiana markets. Pursuant to the terms of the purchase agreement, Old National paid Citizens Financial Group approximately $17.2 million. In accordance with FASB ASC 805 (SFAS No. 141(R) *Business Combinations*), Old National has expensed approximately $5.1 million of costs related to the business combination 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.

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NOTE 4 NET INCOME PER SHARE

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

(dollars and shares in thousands, except per share data)	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Basic Earnings Per Share		
Net income	**$ 10,069**	$ 9,405
Less: Preferred stock dividends and accretion of discount		3,892
Net income available to common stockholders	**10,069**	5,513
Weighted average common shares outstanding	**86,752**	65,793
Basic Earnings Per Share	**$ 0.12**	$ 0.08
Diluted Earnings Per Share		
Net income available to common stockholders	**10,069**	5,513
Weighted average common shares outstanding	**86,752**	65,793
Effect of dilutive securities:		
Restricted stock (1)	**38**	78
Stock options (2)	**7**	11
Warrants (3)		
Weighted average shares outstanding	**86,797**	65,882
Diluted Earnings Per Share	**$ 0.12**	$ 0.08

(1) 315 and 302 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share at March 31, 2010 and 2009, respectively, because the effect would be antidulitive.

(2) Options to purchase 6,018 shares and 6,054 shares

outstanding at March 31, 2010 and 2009, respectively, were not included in the computation of net income per diluted share because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

(3) Warrants to purchase 813 shares at March 31, 2009, were not included in the computation because the effect would be antidilutive.

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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 for the three months ended March 31, 2010 and 2009:

	Three Months Ended March 31,	
(dollars in thousands)	**2010**	**2009**
Net income	**$ 10,069**	$ 9,405
Other comprehensive income (loss)		
Change in securities available for sale:		
Unrealized holding gains (losses) arising during the period	**15,048**	23,693
Reclassification adjustment for securities (gains) losses realized in income	**(3,503)**	(5,577)
Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income	**(73)**	(12,897)
Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income	**505**	2,391
Income tax effect	**(4,941)**	(2,697)
Change in securities held-to-maturity:		
Amortization of fair value previously recognized into accumulated other comprehensive income	**(184)**	
Income tax effect	**74**	
Cash flow hedges:		
Net unrealized derivative gains (losses) on cash flow hedges	**632**	1,109
Reclassification adjustment on cash flow hedges	**72**	72
Income tax effect	**(281)**	(472)
Defined benefit pension plans:		
Amortization of net (gain) loss recognized in income	**401**	714
Income tax effect	**(161)**	(285)
Total other comprehensive income (loss)	**7,589**	6,051
Comprehensive income (loss)	**$ 17,658**	$ 15,456

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The following table summarizes the changes within each classification of accumulated other comprehensive income for the three months ended March 31, 2010 and 2009:

(dollars in thousands)	AOCI at December 31, 2009	Other Comprehensive Income	AOCI at March 31, 2010
Unrealized gains (losses) on available-for-sale securities	**$ 19,789**	**$ 7,079**	**$ 26,868**
Unrealized losses on securities for which other-than-temporary-impairment has been recognized	**(27,501)**	**(43)**	**(27,544)**
Unrealized gains (losses) on held-to-maturity securities	**812**	**(110)**	**702**
Unrecognized gain (loss) on cash flow hedges	**187**	**423**	**610**
Defined benefit pension plans	**(13,653)**	**240**	**(13,413)**
Accumulated other comprehensive income (AOCI)	**$ (20,366)**	**$ 7,589**	**$ (12,777)**

(dollars in thousands)	AOCI at December 31, 2008	Other Comprehensive Income	AOCI at March 31, 2009
Unrealized gains (losses) on available-for-sale securities	$ (40,504)	$ 13,105	$ (27,399)
Unrealized losses on securities for which other-than-temporary-impairment has been recognized		(8,192)	(8,192)
Unrealized gains (losses) on held-to-maturity securities			
Unrecognized gain (loss) on cash flow hedges	(480)	709	229
Defined benefit pension plans	(12,520)	429	(12,091)
Accumulated other comprehensive income (AOCI)	$ (53,504)	$ 6,051	$ (47,453)

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NOTE 6 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at March 31, 2010 and December 31, 2009 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2010				
Available-for-sale				
U.S. Treasury	**$ 51,364**	**$ 1**	**$ (147)**	**$ 51,218**
U.S. Government-sponsored entities and agencies	**854,001**	**5,414**	**(1,449)**	**857,966**
Mortgage-backed securities Agency	**706,205**	**20,233**	**(412)**	**726,026**
Mortgage-backed securities Non-agency	**206,158**	**731**	**(41,442)**	**165,447**
States and political subdivisions	**531,146**	**28,946**	**(373)**	**559,719**
Pooled trust preferrred securities	**28,493**		**(16,764)**	**11,729**
Other securities	**143,679**	**6,598**	**(2,356)**	**147,921**
Total available-for-sale securities	**$ 2,521,046**	**$ 61,923**	**$ (62,943)**	**$ 2,520,026**
Held-to-maturity				
U.S. Government-sponsored entities and agencies	**$ 291,373**	**$ 4,508**	**$ (70)**	**$ 295,811**
Mortgage-backed securities Agency	**156,618**	**3,967**		**160,585**
Other securities	**2,045**		**(371)**	**1,674**
Total held-to-maturity securities	**$ 450,036**	**$ 8,475**	**$ (441)**	**$ 458,070**
December 31, 2009				
Available-for-sale				
U.S. Treasury	$ 1,002	$ 1	$	$ 1,003
U.S. Government-sponsored entities and agencies	918,366	3,260	(7,389)	914,237
Mortgage-backed securities Agency	688,439	19,783	(93)	708,129
Mortgage-backed securities Non-agency	216,215	933	(42,551)	174,597
States and political subdivisions	508,496	27,159	(1,060)	534,595
Pooled trust preferrred securities	28,498		(16,100)	12,398
Other securities	138,200	6,098	(3,038)	141,260
Total available-for-sale securities	$ 2,499,216	$ 57,234	$ (70,231)	$ 2,486,219
Held-to-maturity				
U.S. Government-sponsored entities and agencies	$ 227,461	$ 2,029	$ (1,613)	$ 227,877
Mortgage-backed securities Agency	165,639	3,934		169,573
Other securities	2,909		(406)	2,503
Total held-to-maturity securities	$ 396,009	$ 5,963	$ (2,019)	$ 399,953

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

(dollars in thousands)	March 31, 2010		Weighted
	Amortized	Fair	Average
Maturity	**Cost**	**Value**	**Yield**
Available-for-sale			
Within one year	**$ 121,924**	**$ 123,552**	**3.49%**
One to five years	**1,066,450**	**1,077,051**	**3.52**
Five to ten years	**474,112**	**454,701**	**4.92**
Beyond ten years	**858,560**	**864,722**	**5.18**
Total	**$ 2,521,046**	**$ 2,520,026**	**4.34%**
Held-to-maturity			
Within one year	**$ 268**	**$ 191**	**4.69%**
One to five years	**158,395**	**162,067**	**3.63**
Beyond ten years	**291,373**	**295,812**	**4.00**
Total	**$ 450,036**	**$ 458,070**	**3.87%**

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The following table summarizes the investment securities with unrealized losses at March 31, 2010 and December 31, 2009 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2010						
Available-for-Sale						
U.S. Treasury	**$ 50,215**	**$ (147)**	**$**	**$**	**$ 50,215**	**$ (147)**
U.S. Government-sponsored entities and agencies	**78,643**	**(832)**	**51,686**	**(617)**	**130,329**	**(1,449)**
Mortgage-backed securities Agency	**104,047**	**(412)**	**33**		**104,080**	**(412)**
Mortgage-backed securities Non-agency	**979**	**(7)**	**142,070**	**(41,435)**	**143,049**	**(41,442)**
States and political subdivisions	**33,571**	**(321)**	**6,920**	**(52)**	**40,491**	**(373)**
Pooled trust preferrred securities			**11,729**	**(16,764)**	**11,729**	**(16,764)**
Other securities	**57,890**	**(71)**	**9,610**	**(2,285)**	**67,500**	**(2,356)**
Total available-for-sale	**$ 325,345**	**$ (1,790)**	**$ 222,048**	**$ (61,153)**	**$ 547,393**	**$ (62,943)**
Held-to-Maturity						
U.S. Government-sponsored entities and agencies	**$ 22,201**	**$ (70)**	**$**	**$**	**$ 22,201**	**$ (70)**
Other securities	**191**	**(76)**	**1,483**	**(295)**	**1,674**	**(371)**
Total held-to-maturity	**$ 22,392**	**$ (146)**	**$ 1,483**	**$ (295)**	**$ 23,875**	**$ (441)**
December 31, 2009						
Available-for-Sale						
U.S. Government-sponsored entities and agencies	$ 261,186	$ (7,389)	$	$	$ 261,186	$ (7,389)
Mortgage-backed securities Agency	18,488	(93)	37		18,525	(93)
Mortgage-backed securities Non-agency	1,141	(8)	140,622	(42,543)	141,763	(42,551)
States and political subdivisions	75,918	(871)	6,783	(189)	82,701	(1,060)
Pooled trust preferrred securities			12,398	(16,100)	12,398	(16,100)
Other securities	4,445	(40)	8,891	(2,998)	13,336	(3,038)
Total available-for-sale	$ 361,178	$ (8,401)	$ 168,731	$ (61,830)	$ 529,909	$ (70,231)
Held-to-Maturity						
U.S. Government-sponsored entities and agencies	$ 93,467	$ (1,613)	$	$	$ 93,467	$ (1,613)
Other securities			2,502	(406)	2,502	(406)
Total held-to-maturity	$ 93,467	$ (1,613)	$ 2,502	$ (406)	$ 95,969	$ (2,019)

Proceeds from sales and calls of securities available for sale were $128.0 million and $191.7 million for the three months ended March 31, 2010 and 2009, respectively. Gains of $3.5 million and $6.5 million were realized on these sales during 2010 and 2009, respectively, and losses of $0.9 million were realized on these sales during 2009. Also impacting earnings in the first quarter of 2010 are other-than-temporary impairment charges related to credit loss on six non-agency mortgage-backed securities in the amount of $0.5 million, described below. Impacting earnings in the first quarter of 2009 were other-than-temporary impairment charges related to credit loss on three pooled trust preferred securities in the amount of $2.4 million.

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.

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

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

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

As of March 31, 2010, Old National s security portfolio consisted of 1,056 securities, 90 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 March 31, 2010, the Company s securities portfolio contained non-agency collateralized mortgage obligations with a market value of $165.4 million which had net unrealized losses of approximately $40.7 million. All of these securities are residential mortgage-backed securities. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of FASB ASC 325-10 (EITF 99-20). As of March 31, 2010, ten of these securities were rated below investment grade with grades ranging from B to CC. One of the ten securities is rated B and has a market value of $11.6 million, six of the securities are rated CCC with a market value of $50.0 million and three of the securities are rated CC with a market value of $31.8 million. These securities were evaluated to determine if the underlying collateral is expected to experience loss, resulting in a principal loss of the notes. As part of the evaluation, a detailed analysis of deal-specific data was obtained from remittance reports provided by the trustee and data from the servicer. The collateral was broken down into several distinct buckets based on loan performance characteristics in order to apply different assumptions to each bucket. The most significant drivers affecting loan performance were examined including original loan-to-value (LTV), underlying property location and the loan status. The loans in the current status bucket were further divided based on their original LTV: a high-LTV and a low-LTV group to which different default curves and severity percentages were applied. The high-LTV group was further bifurcated into loans originated in high-risk states and all other states and a higher default-curve and severity percentages were applied to loans originated in the high-risk states. Different default curves and severity rates were applied to the remaining non-current collateral buckets. Using these collateral-specific assumptions, a model was built to project the future performance of the instrument. Based on this analysis of the underlying collateral, Old National recorded $0.5 million of other-than-temporary impairment on six of these securities for the three months ended March 31, 2010. The market value of these non-agency mortgage-backed securities was $40.1 million at March 31, 2010.

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Pooled Trust Preferred Securities

Seven of the pooled trust preferred securities in our portfolio fall within the scope of FASB ASC 325-10 (EITF 99-20) and include $14.4 million amortized cost. These securities were rated A2 and A3 at inception, but at March 31, 2010, Moody s rated one security Baa2, one security Caa3 and five 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.
For the three months ended March 31, 2010, our model indicated no other-than-temporary-impairment losses on these securities. Together, the seven securities subject to FASB ASC 325-10 accounted for $8.9 million of the unrealized loss in the pooled trust preferred securities category at March 31, 2010. Two of our pooled trust preferred securities are not subject to FASB ASC 325-10. These securities, with unrealized losses of $7.7 million at March 31, 2010, were evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.
For the three months ended March 31, 2009, our model indicated other-than-temporary-impairment losses on three pooled trust preferred securities of $15.3 million, of which $2.4 million was recorded as expense and $12.9 million was recorded in other comprehensive income. Together, the seven securities subject to FASB ASC 325-10 accounted for $27.2 million of the unrealized loss in the pooled trust preferred securities category at March 31, 2009.
The following table details all securities with other-than-temporary-impairment, their credit rating at March 31, 2010 and the related credit losses recognized in earnings:

	Vintage	Moody s Rating (1)	Book Value	Amount of other-than-temporary-impairment recognized in earnings for the three months ended March 31, 2010
Non-agency mortgage-backed securities:				
CWALT Ser 73CB	2005	B3	$ 7,280	$ 57
CWALT Ser 73CB	2005	B3	9,183	103
CWHL 2006-10	2006	CC	10,135	204
CWHL 2005-20	2005	B-	12,377	32
RALI QS2	2006	Caa1	7,469	79
RFMSI S1	2006	B1	6,421	30
			$ 52,865	505
Total other-than-temporary- impairment recognized in earnings				$ 505

(1) If Moody s rating not available, lowest rating was used.

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The following table details all securities with other-than-temporary-impairment, their credit rating at March 31, 2009 and the related credit losses recognized in earnings:

	Vintage	Moody s Rating (1)	Book Value	Amount of other-than-temporary-impairment recognized in earnings for the three months ended March 31, 2009
Pooled trust preferred securities:				
TROPC	2003	Caa3	$ 4,996	$ 828
MM Community Funding IX	2003	Caa3	4,938	282
Reg Div Funding	2004	Ca	9,828	1,281
			$ 19,762	2,391
Total other-than-temporary- impairment recognized in earnings				$ 2,391

(1) If Moody s rating not available, lowest rating was used.

The following table presents a rollforward of the cumulative credit losses recognized in earnings:

Beginning balance, January 1, 2010	$ 24,795
Increase to the amount related to the credit loss for which other-than- temporary-impairment was previously recognized	505
Ending balance, March 31, 2010	$ 25,300

NOTE 7 LOANS HELD FOR SALE

Residential loans that Old National has committed to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). At March 31, 2010 and December 31, 2009, Old National had residential loans held for sale of $4.0 million and $17.5 million, respectively. The majority of new production during the first quarter of 2010 was retained in Old National s loan portfolio, resulting in lower residential loans held for sale.

In June 2009, Old National transferred $370.2 million of leases to held for sale status. During the third quarter, $258.0 million of these leases were sold at a price above par; however the transaction resulted in a loss of $1.4 million after transaction fees. Approximately $46.0 million of the remaining leases were transferred from held for sale back to the loan portfolio at the lower of cost or market in the third quarter of 2009 and approximately $0.5 million of the remaining leases were transferred from held for sale back to the loan portfolio at the lower of cost or market in the first quarter of 2010. Approximately $52.2 million of finance leases remained available for sale at March 31, 2010. The leases held for sale have maturities ranging from 1.3 years to 17 years and interest rates ranging from 3.76% to 9.73%. All of the leases held for sale are to municipalities, with various types of equipment securing the leases, and all of the leases are current.

During the first three months of 2010, commercial and commercial real estate loans held for investment of $2.3 million were reclassified to loans held for sale at the lower of cost or fair value and sold for $2.7 million, resulting in a recovery of $0.4 million on the loans transferred. At March 31, 2009, there were no loans held for sale under this arrangement.

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NOTE 8 ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses was as follows:

	Three Months Ended March 31,	
(dollars in thousands)	**2010**	**2009**
Balance, January 1	**$ 69,548**	$ 67,087
Additions:		
Provision charged to expense	**9,281**	17,300
Deductions:		
Loans charged-off	**10,912**	15,900
Recoveries	**(4,181)**	(3,288)
Net charge-offs	**6,731**	12,612
Balance, March 31	**$ 72,098**	$ 71,775

Individually impaired loans were as follows:

(dollars in thousands)	**March 31, 2010**	**December 31, 2009**
Impaired loans without an allowance for loan losses allocation	**$ 14,725**	$ 12,659
Impaired loans with an allowance for loan losses allocation	**35,450**	36,452
Total impaired loans	**$ 50,175**	$ 49,111
Allowance for loan losses allocated to impaired loans	**$ 14,560**	$ 14,503

For the three months ended March 31, 2010 and 2009, the average balance of impaired loans was $49.6 million and $59.1 million, respectively, for which no interest income was recorded. Generally, no additional funds are committed to be advanced in connection with impaired loans, including troubled debt restructurings. Loans deemed impaired are evaluated using the fair value of the underlying collateral.

Nonperforming loans were as follows:

(dollars in thousands)	**March 31, 2010**	**December 31, 2009**
Nonaccrual loans	**$ 68,144**	$ 67,016
Renegotiated loans not on nonaccrual		
Total nonperforming loans	**$ 68,144**	$ 67,016
Past due loans (90 days or more and still accruing)	**$ 1,314**	$ 3,501

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 March 31, 2010, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled $6.8 million and had specific allocations of allowance for loan losses of $3.1 million. At December 31, 2009, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled $10.0 million and had specific allocations of allowance for loan losses of $3.5 million.

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NOTE 9 GOODWILL AND OTHER INTANGIBLE ASSETS

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

(dollars in thousands)	Community Banking	Other	Total
Balance, January 1, 2010	**$ 128,011**	**$ 39,873**	**$ 167,884**
Goodwill acquired during the period			
Balance, March 31, 2010	**$ 128,011**	**$ 39,873**	**$ 167,884**
Balance, January 1, 2009	$ 119,325	$ 39,873	$ 159,198
Goodwill acquired during the period	8,593		8,593
Balance, March 31, 2009	$ 127,918	$ 39,873	$ 167,791

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2009 and determined that no impairment existed as of this date. Old National recorded $8.6 million of goodwill during the first quarter of 2009 associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group.

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

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
March 31, 2010			
Amortized intangible assets:			
Core deposit	**$ 26,810**	**$ (11,835)**	**$ 14,975**
Customer business relationships	**25,753**	**(13,185)**	**12,568**
Customer loan relationships	**4,413**	**(1,270)**	**3,143**
Total intangible assets	**$ 56,976**	**$ (26,290)**	**$ 30,686**
December 31, 2009			
Amortized intangible assets:			
Core deposit	$ 26,810	$ (10,794)	$ 16,016
Customer business relationships	25,753	(12,705)	13,048
Customer loan relationships	4,413	(1,170)	3,243
Total intangible assets	$ 56,976	$ (24,669)	$ 32,307

Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 7 to 25 years. During the first quarter of 2009, Old National recorded $11.2 million of core deposit intangibles associated with the acquisition of the branch banking network of Citizens Financial Group, which is included in the Community Banking segment. Total amortization expense associated with other intangible assets for the three months ended March 31 was $1.6 million in 2010 and $1.0 million in 2009.

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Estimated amortization expense for future years is as follows:

(dollars in thousands)		
2010 remaining	$	4,509
2011		5,546
2012		4,840
2013		4,050
2014		3,259
Thereafter		8,482
Total	$	30,686

NOTE 10 SHORT-TERM BORROWINGS

The following table presents the distribution of Old National s short-term borrowings and related weighted-average interest rates as of March 31, 2010:

(dollars in thousands)	Federal Funds Purchased	Repurchase Agreements	Other Short-term Borrowings	Total
2010				
Outstanding at March 31, 2010	**$ 591**	**$ 348,403**	**$ 8,989**	**$ 357,983**
Average amount outstanding	**1,143**	**319,679**	**9,311**	**330,133**
Maximum amount outstanding at any month-end	**1,421**	**348,403**	**10,423**	
Weighted average interest rate:				
During three months ended March 31, 2010	**0.01%**	**0.18%**	**4.79%**	**0.31%**
At March 31, 2010		**0.17**		**0.17**

Other Short-term Borrowings

Line of Credit

During the second quarter of 2009, Old National entered into a $30 million revolving credit facility at the parent level. The facility had an interest rate of LIBOR plus 2.00% and a maturity of 364 days. There was no amount outstanding as of March 31, 2010. The facility will mature in April 2010 and Old National does not plan to renew the facility.

Treasury Investment Program

As of March 31, 2010, Old National had $9.0 million of Treasury funds under the Treasury Tax and Loan Account program. These funds typically have a short duration, are collateralized and can be withdrawn by the Treasury Department at any time. At March 31, 2010, the effective interest rate on these funds was 0%.

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NOTE 11 FINANCING ACTIVITIES

The following table summarizes Old National s and its subsidiaries other borrowings at March 31, 2010 and December 31, 2009:

(dollars in thousands)	March 31, 2010	December 31, 2009
Old National Bancorp:		
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 3.34%) maturing April 2032 to March 2035	**108,000**	108,000
SFAS 133 fair value hedge and other basis adjustments	**(715)**	(726)
Old National Bank:		
Securities sold under agreements to repurchase (fixed rates 2.45% to 3.46% and variable rate 3.05%) maturing December 2010 to October 2012	**99,000**	99,000
Federal Home Loan Bank advances (fixed rates 3.20% to 8.34% and variable rates 1.82% to 2.53%) maturing August 2011 to January 2023	**289,894**	289,974
Subordinated bank notes (fixed rate 6.75%) maturing October 2011	**150,000**	150,000
Capital lease obligation	**4,340**	4,350
SFAS 133 fair value hedge and other basis adjustments	**(136)**	(1,539)
Total other borrowings	**$ 700,383**	$ 699,059

Contractual maturities of other borrowings at March 31, 2010, were as follows:

(dollars in thousands)	
Due in 2010	$ 74,033
Due in 2011	225,046
Due in 2012	100,688
Due in 2013	76,170
Due in 2014	50,889
Thereafter	174,408
SFAS 133 fair value hedge and other basis adjustments	(851)
Total	$ 700,383

FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances had weighted-average rates of 3.67% and 3.68% at March 31, 2010, and December 31, 2009, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 150% of outstanding debt.

SUBORDINATED BANK NOTES

Old National Bank s notes are issued under the global note program and are not obligations of, or guaranteed by, Old National Bancorp. In accordance with the senior and subordinated global bank note program, Old National Bank may issue and sell up to a maximum of $1 billion.

According to capital guidelines, the portion of limited-life capital instruments that is includible in Tier 2 capital is limited with-in five years or less until maturity. As of March 31, 2010, 20%, or $30 million of the subordinated bank notes qualified as Tier 2 Capital for regulatory purposes. As shown in the table above, the subordinated bank notes mature October 2011. Capital treatment will cease October 2010, or one year prior to the maturity date.

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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, at any time without limitation. 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.

In 2007, Old National acquired St. Joseph Capital Trust I and St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust I and St. Joseph Capital Trust II. St. Joseph Capital Trust I issued $3.0 million in preferred securities in July 2003. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 305 basis points, payable quarterly and maturing on July 11, 2033. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust I. St. Joseph Capital Trust II issued $5.0 million in preferred securities in March 2005. The preferred securities 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, at any time without limitation.

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.

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

(dollars in thousands)		
2010 remaining	$	293
2011		390
2012		390
2013		390
2014		410
Thereafter		10,903
Total minimum lease payments		12,776
Less amounts representing interest		8,436
Present value of net minimum lease payments	$	4,340

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NOTE 12 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 and the Company expects to contribute approximately $0.3 million to the Retirement Plan in 2010.

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 $0.1 million to cover benefit payments from the Restoration Plan during the first three months of 2010. Old National expects to contribute an additional $0.2 million to cover benefit payments from the Restoration Plan during the remainder of 2010.

The net periodic benefit cost and its components were as follows for the three months ended March 31:

	Three Months Ended March 31,	
(dollars in thousands)	**2010**	**2009**
Interest cost	**$ 497**	$ 493
Expected return on plan assets	**(490)**	(483)
Recognized actuarial loss	**401**	363
Settlement		350
Net periodic benefit cost	**$ 408**	$ 723

NOTE 13 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 March 31, 2010, 1.3 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 did not grant any stock options during the first quarter of 2010. Old National recorded $0.1 million of stock based compensation expense, net of tax, during the first three months of 2010 as compared to $0.1 million for the first three months of 2009.

Restricted Stock Awards

The Company granted 112 thousand time-based restricted stock awards to certain key officers during 2010, 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 March 31, 2010, unrecognized compensation expense was estimated to be $2.8 million for unvested restricted share awards.

Old National recorded expense of $0.2 million, net of tax benefit, during the first three months of 2010, compared to expense of $0.4 million during the first three months of 2009 related to the vesting of restricted share awards. Included in the first three months of 2010 is the reversal of $0.1 million of expense associated with certain performance-based restricted stock grants. Included in the first three months of 2009 is the reversal of $0.1 million of expense associated with certain performance-based restricted stock grants.

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Restricted Stock Units

The Company granted 137 thousand shares of performance based restricted stock units to certain key officers during 2010, 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 $0.2 million of stock based compensation expense, net of tax, during the first three months of 2010. Old National recorded $0.1 million of stock based compensation expense, net of tax, during the first three months of 2009.

NOTE 14 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 months ended March 31:

	Three Months Ended March 31,	
(dollars in thousands)	**2010**	**2009**
Provision at statutory rate of 35%	**$ 4,119**	$ 2,334
Tax-exempt income	**(2,661)**	(4,171)
State income taxes	**85**	(806)
Other, net	**156**	(93)
Income tax expense (benefit)	**$ 1,699**	$ (2,736)
Effective tax rate	**14.4%**	(41.0)%

For the three months ended March 31, 2010, the effective tax rate was higher than the three months ended March 31, 2009. The tax rate increased in the first quarter of 2010 as a result of a decrease in tax-exempt income relative to taxable income.

No valuation allowance was recorded at March 31, 2010 and 2009 because, based on our current expectations, Old National believes that it will generate sufficient income in the future years to realize deferred tax assets.

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)	**2010**	2009
Balance at January 1	**$ 8,500**	$ 7,513
Additions based on tax positions related to the current year	**164**	13
Balance at March 31	**$ 8,664**	$ 7,526

Approximately $1.4 million of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods.

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NOTE 15 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 $297.5 million and $297.5 million at March 31, 2010 and December 31, 2009, respectively. Both the March 31, 2010 and December 31, 2009 balances consist of $197.5 million notional amount of receive-fixed interest rate swaps on certain of its FHLB advances and $100.0 million notional amount of receive-fixed interest rate swaps on certain commercial loans. These hedges were entered into to manage both interest rate risk and asset sensitivity on the balance sheet. These derivative instruments are recognized on the balance sheet at their fair value.

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At March 31, 2010, the notional amount of the interest rate lock commitments and forward commitments were $7.8 million and $11.2 million, respectively. At December 31, 2009, the notional amount of the interest rate lock commitments and forward commitments were $20.0 million and $36.1 million, respectively. It is the Company s practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitment to fund the loans. All derivative instruments are recognized on the balance sheet at their fair value.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $451.8 million and $451.8 million, respectively, at March 31, 2010. At December 31, 2009, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were $479.8 million and $479.8 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps and foreign exchange forward contracts. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

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

	Asset Derivatives			
	March 31, 2010		**December 31, 2009**	
(dollars in thousands)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments				
Interest rate contracts	Other assets	**$ 3,577**	Other assets	$ 1,789
Total derivatives designated as hedging instruments		**$ 3,577**		$ 1,789
Derivatives not designated as hedging instruments				
Interest rate contracts	Other assets	**$ 29,127**	Other assets	$ 27,749
Foreign exchange contracts	Other assets		Other assets	12
Mortgage contracts	Other assets	**184**	Other assets	370
		$ 29,311		$ 28,131

Total derivatives not designated as hedging instruments		
Total derivative assets	**$ 32,888**	$ 29,920

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	Liability Derivatives			
	March 31, 2010		December 31, 2009	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate contracts	Other liabilities	**$ 494**	Other liabilities	$ 1,188
Total derivatives designated as hedging instruments		**$ 494**		$ 1,188
Derivatives not designated as hedging instruments				
Interest rate contracts	Other liabilities	**$ 29,659**	Other liabilities	$ 28,279
Foreign exchange contracts	Other liabilities		Other liabilities	12
Total derivatives not designated as hedging instruments		**$ 29,659**		$ 28,291
Total derivative liabilities		**$ 30,153**		$ 29,479

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

	Three months ended	Three months