

OLD NATIONAL BANCORP /IN/

Form 10-Q

May 01, 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 March 31, 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 66,411,000 shares outstanding at March 31, 2009.

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CONSOLIDATED BALANCE SHEETS**

| (dollars and shares in thousands, except per share data) | March 31, 2009 (unaudited) | December 31, 2008 | March 31, 2008 (unaudited) |
|---|---|----------------------------------|---|
| Assets | | | |
| Cash and due from banks | \$ 131,507 | \$ 162,893 | \$ 228,734 |
| Federal funds sold and resell agreements | | 6 | |
| Money market investments | 42,588 | 30,113 | 72,843 |
| Total cash and cash equivalents | 174,095 | 193,012 | 301,577 |
| Investment securities available-for-sale, at fair value | | | |
| U.S. Government-sponsored entities and agencies | 1,019,561 | 389,278 | 469,311 |
| Mortgage-backed securities | 1,045,142 | 1,081,619 | 1,012,127 |
| States and political subdivisions | 485,083 | 482,204 | 294,310 |
| Other securities | 160,517 | 171,925 | 210,567 |
| Investment securities available-for-sale | 2,710,303 | 2,125,026 | 1,986,315 |
| Investment securities held-to-maturity, at amortized cost (fair value \$95,334, \$100,831 and \$120,067 respectively) | 92,989 | 99,661 | 119,380 |
| Federal Home Loan Bank stock, at cost | 41,090 | 41,090 | 41,090 |
| Residential loans held for sale, at fair value | 19,609 | 17,155 | 10,155 |
| Loans: | | | |
| Commercial | 1,809,431 | 1,897,966 | 1,740,278 |
| Commercial real estate | 1,133,851 | 1,154,916 | 1,235,302 |
| Residential real estate | 488,539 | 496,526 | 528,534 |
| Consumer credit, net of unearned income | 1,189,711 | 1,210,951 | 1,176,708 |
| Total loans | 4,621,532 | 4,760,359 | 4,680,822 |
| Allowance for loan losses | (71,775) | (67,087) | (72,250) |
| Net loans | 4,549,757 | 4,693,272 | 4,608,572 |
| Premises and equipment, net | 58,586 | 44,625 | 45,775 |
| Accrued interest receivable | 48,248 | 49,030 | 44,489 |
| Goodwill | 167,791 | 159,198 | 159,198 |
| Other intangible assets | 37,813 | 27,628 | 31,102 |
| Company-owned life insurance | 223,816 | 223,126 | 216,917 |
| Assets held for sale | 1,992 | 1,992 | 2,996 |
| Other assets | 229,979 | 199,075 | 155,900 |
| Total assets | \$ 8,356,068 | \$ 7,873,890 | \$ 7,723,466 |
| Liabilities | | | |
| Deposits: | | | |
| Noninterest-bearing demand | \$ 1,039,333 | \$ 888,578 | \$ 861,114 |
| Interest-bearing: | | | |

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| | | | |
|---|---------------------|--------------|--------------|
| NOW | 1,257,480 | 1,292,574 | 1,312,216 |
| Savings | 918,837 | 874,602 | 923,367 |
| Money market | 522,841 | 420,821 | 517,776 |
| Time (including \$6,034, \$49,309 and \$41,429, respectively, at fair value) | 2,116,247 | 1,945,712 | 1,732,012 |
| Total deposits | 5,854,738 | 5,422,287 | 5,346,485 |
| Short-term borrowings | 827,092 | 649,623 | 640,503 |
| Other borrowings | 809,958 | 834,867 | 834,888 |
| Accrued expenses and other liabilities | 232,488 | 236,248 | 226,197 |
| Total liabilities | 7,724,276 | 7,143,025 | 7,048,073 |
| Shareholders Equity | | | |
| 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, 66,411, 66,321 and 66,202 shares issued and outstanding, respectively | 66,411 | 66,321 | 66,202 |
| Capital surplus | 571,755 | 569,875 | 564,397 |
| Retained earnings | 41,079 | 50,815 | 53,563 |
| Accumulated other comprehensive loss, net of tax | (47,453) | (53,504) | (8,769) |
| Total shareholders equity | 631,792 | 730,865 | 675,393 |
| Total liabilities and shareholders equity | \$ 8,356,068 | \$ 7,873,890 | \$ 7,723,466 |

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

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CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

| (dollars in thousands, except per share data) | Three Months Ended | |
|---|--------------------|----------------|
| | March 31, | |
| | 2009 | 2008 |
| Interest Income | | |
| Loans including fees: | | |
| Taxable | \$ 51,694 | \$ 71,128 |
| Nontaxable | 5,850 | 5,461 |
| Investment securities, available-for-sale: | | |
| Taxable | 23,481 | 22,562 |
| Nontaxable | 5,799 | 3,221 |
| Investment securities, held-to-maturity, taxable | 1,098 | 1,430 |
| Money market investments and federal funds sold | 61 | 332 |
| Total interest income | 87,983 | 104,134 |
| Interest Expense | | |
| Deposits | 17,790 | 29,736 |
| Short-term borrowings | 388 | 3,929 |
| Other borrowings | 10,607 | 10,679 |
| Total interest expense | 28,785 | 44,344 |
| Net interest income | 59,198 | 59,790 |
| Provision for loan losses | 17,300 | 21,905 |
| Net interest income after provision for loan losses | 41,898 | 37,885 |
| Noninterest Income | | |
| Wealth management fees | 3,827 | 4,569 |
| Service charges on deposit accounts | 10,689 | 10,238 |
| ATM fees | 4,140 | 4,034 |
| Mortgage banking revenue | 1,728 | 1,233 |
| Insurance premiums and commissions | 11,410 | 12,069 |
| Investment product fees | 2,239 | 2,718 |
| Company-owned life insurance | 696 | 2,760 |
| Net securities gains | 5,577 | 4,519 |
| Impairment on available-for-sale securities (includes total losses of \$15,288 for 2009, net of \$12,897 recognized in other comprehensive income, pre-tax) | (2,391) | |
| Gain (loss) on derivatives | 483 | (616) |
| Gain on sale leaseback transactions | 1,589 | 1,565 |
| Other income | 2,248 | 3,787 |
| Total noninterest income | 42,235 | 46,876 |
| Noninterest Expense | | |
| Salaries and employee benefits | 42,699 | 42,328 |

| | | |
|--|-----------------|------------------|
| Occupancy | 10,592 | 9,645 |
| Equipment | 2,314 | 2,568 |
| Marketing | 1,996 | 2,044 |
| Data processing | 4,891 | 4,622 |
| Communication | 2,551 | 2,311 |
| Professional fees | 2,642 | 1,658 |
| Loan expense | 875 | 1,251 |
| Supplies | 1,322 | 884 |
| Loss on extinguishment of debt | 405 | 207 |
| FDIC assessment | 2,084 | 302 |
| Amortization of intangibles | 1,002 | 876 |
| Other expense | 4,091 | 2,240 |
| Total noninterest expense | 77,464 | 70,936 |
| Income before income taxes | 6,669 | 13,825 |
| Income tax expense (benefit) | (2,736) | (5,515) |
| Net income | 9,405 | 19,340 |
| Preferred stock dividends and discount accretion | (3,892) | |
| Net income available to common stockholders | \$ 5,513 | \$ 19,340 |
| Net income per common share basic | \$ 0.08 | \$ 0.29 |
| Net income per common share diluted | 0.08 | 0.29 |
| Weighted average number of common shares outstanding-basic | 65,793 | 65,623 |
| Weighted average number of common shares outstanding-diluted | 65,882 | 65,754 |
| Dividends per common share (1) | \$ 0.23 | \$ |

(1) A \$0.23 cash dividend was paid in the first quarter of 2008. However, the first quarter dividend was declared in December 2007 and is included in fourth quarter 2007 results.

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

Table of Contents**OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)**

| | 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 |
| Balance, December 31, 2007 | | \$ 66,205 | \$ 563,675 | \$ 34,346 | \$ (11,345) | \$ 652,881 | |
| Comprehensive income | | | | | | | |
| Net income | | | | 19,340 | | 19,340 | \$ 19,340 |
| Other comprehensive income (1) | | | | | | | |
| Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax | | | | | 2,438 | 2,438 | 2,438 |
| Reclassification adjustment on cash flows hedges, net of tax | | | | | 43 | 43 | 43 |
| Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax | | | | | 95 | 95 | 95 |
| Total comprehensive income | | | | | | | \$ 21,916 |
| Other adjustments | | | 47 | (123) | | (76) | |
| Stock repurchased | | (13) | (213) | | | (226) | |
| Stock based compensation expense | | | 874 | | | 874 | |
| Stock activity under incentive comp plans | | 10 | 14 | | | 24 | |
| Balance, March 31, 2008 | | \$ 66,202 | \$ 564,397 | \$ 53,563 | \$ (8,769) | \$ 675,393 | |
| 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) |
| 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 |

(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) | Three Months Ended March 31, | |
|---|---|-------------|
| | 2009 | 2008 |
| Cash Flows From Operating Activities | | |
| Net income | \$ 9,405 | \$ 19,340 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 1,536 | 1,493 |
| Amortization and impairment of other intangible assets | 1,002 | 876 |
| Net discount accretion on investment securities | (620) | (443) |
| Restricted stock expense | 646 | 765 |
| Stock option expense | 93 | 109 |
| Provision for loan losses | 17,300 | 21,905 |
| Net securities gains | (5,577) | (4,519) |
| Impairment on available-for-sale securities | 2,391 | |
| Gain on sale leasebacks | (1,589) | (1,565) |
| (Gain) loss on derivatives | (483) | 616 |
| Net gains on sales and write-downs of loans and other assets | (127) | (780) |
| Loss on extinguishment of debt | 405 | 207 |
| Increase in cash surrender value of company owned life insurance | (690) | (2,431) |
| Residential real estate loans originated for sale | (57,880) | (43,908) |
| Proceeds from sale of residential real estate loans | 56,129 | 47,523 |
| Decrease in interest receivable | 814 | 5,788 |
| (Increase) decrease in other assets | 3,398 | (31,506) |
| Increase (decrease) in accrued expenses and other liabilities | (1,378) | 4,142 |
| Total adjustments | 15,370 | (1,728) |
| Net cash flows provided by operating activities | 24,775 | 17,612 |
| Cash Flows From Investing Activities | | |
| Cash and cash equivalents of acquired banking branches, net | 353,694 | |
| Purchases of investment securities available-for-sale | (836,865) | (417,852) |
| Proceeds from maturities, prepayments and calls of investment securities available-for-sale | 184,695 | 480,824 |
| Proceeds from sales of investment securities available-for-sale | 78,343 | 100,177 |
| Proceeds from maturities, prepayments and calls of investment securities held-to-maturity | 6,540 | 7,201 |
| Proceeds from sale of loans | | 2,251 |
| Net principal collected from (loans made to) customers | 131,814 | (2,780) |
| Proceeds from sale of premises and equipment and other assets | 9 | 4,104 |
| Proceeds from sale leaseback of real estate | | 4,542 |
| Purchases of premises and equipment | (4,772) | (2,519) |
| Net cash flows provided by (used in) investing activities | (86,542) | 175,948 |

Cash Flows From Financing Activities

| | | |
|--|-------------------|-------------------|
| Net increase (decrease) in deposits and short-term borrowings: | | |
| Noninterest-bearing demand deposits | 71,060 | 5,666 |
| Savings, NOW and money market deposits | (69,822) | 6,510 |
| Time deposits | 5,272 | (329,642) |
| Short-term borrowings | 177,469 | 2,256 |
| Payments for maturities on other borrowings | (85) | (50,077) |
| Proceeds from issuance of other borrowings | | 225,000 |
| Payments related to retirement of debt | (25,464) | |
| Cash dividends paid on common stock | (15,227) | (15,166) |
| Cash dividends paid on preferred stock | (1,514) | |
| Common stock repurchased | (347) | (226) |
| Proceeds from exercise of stock options, including tax benefit | | 24 |
| Repurchase of TARP preferred stock | (100,000) | |
| Common stock issued | 1,508 | |
| Net cash flows provided by (used in) financing activities | 42,850 | (155,655) |
| Net increase (decrease) in cash and cash equivalents | (18,917) | 37,905 |
| Cash and cash equivalents at beginning of period | 193,012 | 263,672 |
| Cash and cash equivalents at end of period | \$ 174,095 | \$ 301,577 |

Supplemental cash flow information:

| | | |
|-----------------------------------|------------------|-----------|
| Total interest paid | \$ 26,370 | \$ 44,719 |
| Total taxes paid (net of refunds) | \$ 2 | \$ 5,250 |

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 March 31, 2009 and 2008, and December 31, 2008, and the results of its operations for the three months ended March 31, 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.

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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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.

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 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.

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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.

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. Upon adoption, all prior-period earnings per share data presented were adjusted retrospectively with no material impact.

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 expensed approximately \$3.0 million of direct acquisition costs and recorded goodwill of \$8.6 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.

Table of Contents**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, 2009 | Three Months Ended March 31, 2008 |
|---|--|--|
| Basic Earnings Per Share | | |
| Net income | \$ 9,405 | \$ 19,340 |
| Less: Preferred stock dividends and accretion of discount | 3,892 | |
| Net income available to common stockholders | 5,513 | 19,340 |
| Weighted average common shares outstanding | 65,793 | 65,623 |
| Basic Earnings Per Share | \$ 0.08 | \$ 0.29 |
| Diluted Earnings Per Share | | |
| Net income available to common stockholders | 5,513 | 19,340 |
| Weighted average common shares outstanding | 65,793 | 65,623 |
| Effect of dilutive securities: | | |
| Restricted stock (1) | 78 | 106 |
| Stock options (2) | 11 | 25 |
| Warrants (3) | | |
| Weighted average shares outstanding | 65,882 | 65,754 |
| Diluted Earnings Per Share | \$ 0.08 | \$ 0.29 |

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

(2) Options to purchase 6,054 shares and 5,727 shares outstanding at March 31, 2009

and 2008, respectively, were not included in the computation of net income per diluted share because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

- (3) Warrants to purchase 813 shares at March 31, 2009, were not included in the computation because 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 period 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 for the three months ended March 31, 2009 and 2008:

| (dollars in thousands) | Three Months Ended March 31, | |
|--|---|-------------|
| | 2009 | 2008 |
| Net income | \$ 9,405 | \$ 19,340 |
| Other comprehensive income (loss) | | |
| Change in securities available for sale: | | |
| Unrealized holding gains (losses) arising during the period | 18,911 | 8,344 |
| Reclassification adjustment for securities (gains) losses realized in income | (795) | (4,519) |
| Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income | (12,897) | |
| Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income | 2,391 | |
| Income tax effect | (2,697) | (1,387) |
| Cash flow hedges: | | |
| Net unrealized derivative gains (losses) on cash flow hedges | 1,109 | |
| Reclassification adjustment on cash flow hedges | 72 | 71 |
| Income tax effect | (472) | (28) |
| Defined benefit pension plans: | | |
| Amortization of net (gain) loss recognized in income | 714 | 158 |
| Income tax effect | (285) | (63) |
| Total other comprehensive income (loss) | 6,051 | 2,576 |
| Comprehensive income (loss) | \$ 15,456 | \$ 21,916 |

The following table summarizes the changes within each classification of accumulated other comprehensive income for the three months ended March 31, 2009 and 2008:

| (dollars in thousands) | Unrealized gains (losses) on available for sale securities | Unrecognized gain (loss) on cash flow hedges | Defined benefit pension plans | Accumulated other comprehensive income (loss) |
|---|--|--|--|--|
| Balance at December 31, 2008 | \$ (40,504) | \$ (480) | \$ (12,520) | \$ (53,504) |
| Other comprehensive income (loss) | 2,522 | 709 | 429 | 3,660 |
| Other-than-temporary-impairment on available-for-sale securities realized in income | 2,391 | | | 2,391 |
| Balance at March 31, 2009 | \$ (35,591) | \$ 229 | \$ (12,091) | \$ (47,453) |
| Balance at December 31, 2007 | \$ (3,704) | \$ (655) | \$ (6,986) | \$ (11,345) |

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| | | | | |
|-----------------------------------|------------|----------|------------|------------|
| Other comprehensive income (loss) | 2,438 | 43 | 95 | 2,576 |
| Balance at March 31, 2008 | \$ (1,266) | \$ (612) | \$ (6,891) | \$ (8,769) |

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 March 31, 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 |
|---|-------------------|---------------------|----------------------|---------------|
| March 31, 2009 | | | | |
| Available-for-sale | | | | |
| U.S. Government-sponsored entities and agencies | \$ 1,012,591 | \$ 9,702 | \$ (2,732) | \$ 1,019,561 |
| Mortgage-backed securities | 1,082,763 | 22,292 | (59,913) | 1,045,142 |
| States and political subdivisions | 465,490 | 21,904 | (2,311) | 485,083 |
| Other securities | 206,468 | 917 | (46,868) | 160,517 |
| Total available-for-sale securities | \$ 2,767,312 | \$ 54,815 | \$ (111,824) | \$ 2,710,303 |
| Held-to-maturity | | | | |
| Mortgage-backed securities | \$ 86,079 | \$ 2,789 | \$ (444) | \$ 88,424 |
| Other securities | 6,910 | | | 6,910 |
| Total held-to-maturity securities | \$ 92,989 | \$ 2,789 | \$ (444) | \$ 95,334 |
| December 31, 2008 | | | | |
| Available-for-sale | | | | |
| U.S. Government-sponsored entities and agencies | \$ 381,634 | \$ 7,644 | \$ | \$ 389,278 |
| Mortgage-backed securities | 1,127,064 | 15,443 | (60,888) | 1,081,619 |
| States and political subdivisions | 471,246 | 16,030 | (5,072) | 482,204 |
| Other securities | 209,701 | 883 | (38,659) | 171,925 |
| Total available-for-sale securities | \$ 2,189,645 | \$ 40,000 | \$ (104,619) | \$ 2,125,026 |
| Held-to-maturity | | | | |
| Mortgage-backed securities | \$ 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.

| (dollars in thousands) | March 31, 2009 | | Weighted Average Yield |
|---------------------------|-------------------|---------------|------------------------------|
| Maturity | Amortized Cost | Fair Value | |
| Available-for-sale | | | |
| Within one year | \$ 301,381 | \$ 307,551 | 5.94% |
| One to five years | 856,331 | 813,048 | 4.97 |
| Five to ten years | 255,516 | 255,871 | 5.84 |

| | | | |
|-------------------------|---------------------|---------------------|--------------|
| Beyond ten years | 1,354,084 | 1,333,833 | 5.15 |
| Total | \$ 2,767,312 | \$ 2,710,303 | 5.24% |
| Held-to-maturity | | | |
| One to five years | \$ 92,989 | \$ 95,334 | 4.50% |
| Total | \$ 92,989 | \$ 95,334 | 4.50% |

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The following table summarizes the investment securities with unrealized losses at March 31, 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 |
| March 31, 2009 | | | | | | |
| Available-for-Sale | | | | | | |
| U.S. Government-sponsored entities and agencies | \$ 361,753 | \$ (2,732) | \$ | \$ | \$ 361,753 | \$ (2,732) |
| Mortgage-backed securities | 159,209 | (42,734) | 35,011 | (17,179) | 194,220 | (59,913) |
| States and political subdivisions | 72,959 | (2,251) | 1,183 | (60) | 74,142 | (2,311) |
| Other securities | 58,471 | (9,274) | 31,907 | (37,594) | 90,378 | (46,868) |
| Total available-for-sale | \$ 652,392 | \$ (56,991) | \$ 68,101 | \$ (54,833) | \$ 720,493 | \$ (111,824) |
| Held-to-Maturity | | | | | | |
| Other securities | \$ | \$ | \$ 6,465 | \$ (444) | \$ 6,465 | \$ (444) |
| Total held-to-maturity | \$ | \$ | \$ 6,465 | \$ (444) | \$ 6,465 | \$ (444) |
| December 31, 2008 | | | | | | |
| Available-for-Sale | | | | | | |
| U.S. Government-sponsored entities and agencies | \$ | \$ | \$ | \$ | \$ | \$ |
| Mortgage-backed securities | 235,124 | (46,394) | 64,164 | (14,494) | 299,288 | (60,888) |
| States and political subdivisions | 121,276 | (5,072) | | | 121,276 | (5,072) |
| Other securities | 81,326 | (7,793) | 29,785 | (30,866) | 111,111 | (38,659) |
| Total available-for-sale | \$ 437,726 | \$ (59,259) | \$ 93,949 | \$ (45,360) | \$ 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) |

Proceeds from sales and calls of securities available for sale were \$78.3 million and \$100.2 million for the three months ended March 31, 2009 and 2008, respectively. Gross gains of \$6.5 million and \$4.6 million and gross losses of \$0.9 million and \$0.1 million were realized on these sales during 2009 and 2008, respectively. Also impacting earnings in 2009 is an other-than-temporary impairment charge related to credit loss on three trust preferred securities in the amount of \$2.4 million, described below.

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*.

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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. As of March 31, 2009, Old National's security portfolio consisted of 1,170 securities, 206 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's mortgage-backed and other securities, as discussed below:

Mortgage-backed Securities

At March 31, 2009, approximately 80% of the mortgage-backed securities held by Old National were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in market value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2009. The Company's mortgage-backed securities portfolio did contain non-agency collateralized mortgage obligations with a market value of \$209.2 million which had unrealized losses of approximately \$59.3 million at March 31, 2009. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of EITF 99-20. The Company monitors to insure it has adequate credit support and as of March 31, 2009, the Company believes there is no other-than-temporary-impairment and does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

Other Securities

The Company's unrealized losses on other securities relate primarily to its investment in pooled trust preferred securities. The decline in value is primarily attributable to temporary illiquidity and the financial crisis affecting these markets and not necessarily the expected cash flows of the individual securities. Due to the illiquidity in the market, it is unlikely that the Company would be able to recover its investment in these securities if the Company sold the securities at this time.

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Our analysis of seven of these investments falls within the scope of EITF 99-20 and includes \$34.7 million book value of pooled trust preferred securities. These securities were rated A2 and A3 at inception, but at March, 31, 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 ensure there are no adverse changes in cash flows during the quarter. The OTTI model considers the structure and term of the 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 treat all interest payment deferrals as defaults. 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 March 31, 2009 analysis, our model indicated other-than-temporary impairment on three of these securities, all of which experienced additional defaults or deferrals during the period. These three securities had other-than-temporary-impairment losses of \$15.3 million, of which \$2.4 million was recorded as expense and \$12.9 million was recorded in other comprehensive income. These three securities remained classified as available for sale at March 31, 2009, and together, the seven securities subject to EITF 99-20 accounted for \$27.2 million of the unrealized loss in the other securities category at March 31, 2009. The following table details the three debt securities with other-than-temporary-impairment, their credit rating at March 31, 2009 and the related credit losses recognized in earnings:

| | Tropic 2003 A4L Rated Caa3 | MM Community Funding IX B-2 Rated Caa3 | Reg Div Funding 2004 B-2 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 |

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 March 31, 2009 and December 31, 2008, Old National had residential loans held for sale of \$19.6 million and \$17.2 million, respectively.

During the first quarter 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. At March 31, 2009, there were no loans held for sale under this arrangement.

NOTE 8 ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses was as follows:

| (dollars in thousands) | Three Months Ended March 31, | |
|------------------------|---------------------------------|------|
| | 2009 | 2008 |

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| | | |
|------------------------------|------------------|-----------|
| Balance, January 1 | \$ 67,087 | \$ 56,463 |
| Additions: | | |
| Provision charged to expense | 17,300 | 21,905 |
| Deductions: | | |
| Loans charged-off | 15,900 | 8,689 |
| Recoveries | (3,288) | (2,571) |
| Net charge-offs | 12,612 | 6,118 |
| Balance, March 31 | \$ 71,775 | \$ 72,250 |

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Individually impaired loans were as follows:

| (dollars in thousands) | March 31, 2009 | December 31, 2008 |
|--|---------------------------|------------------------------|
| Impaired loans without an allowance for loan losses allocation | \$ 16,925 | \$ 13,968 |
| Impaired loans with an allowance for loan losses allocation | 48,876 | 38,425 |
| Total impaired loans | \$ 65,801 | \$ 52,393 |
| | | |
| Allowance for loan losses allocated to impaired loans | \$ 18,442 | \$ 13,599 |

For the three months ended March 31, 2009 and 2008, the average balance of impaired loans was \$59.1 million and \$45.1 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.

Nonperforming loans were as follows:

| (dollars in thousands) | March 31, 2009 | December 31, 2008 |
|---|---------------------------|------------------------------|
| Nonaccrual loans | \$ 77,406 | \$ 64,041 |
| Renegotiated loans | | |
| Total nonperforming loans | \$ 77,406 | \$ 64,041 |
| | | |
| Past due loans (90 days or more and still accruing) | \$ 2,435 | \$ 2,908 |

Nonperforming loans includes both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. As discussed in the Credit Risk section of Management's Discussion and Analysis of Financial Condition and Results of Operations, nonaccrual loans at March 31, 2009 and 2008, included \$6.8 million and \$23.0 million, respectively, related to the misconduct of a former loan officer.

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, 2009 and 2008:

| (dollars in thousands) | Community Banking | Other | Total |
|-------------------------------------|------------------------------|------------------|-------------------|
| 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 |
| | | | |
| Balance, January 1, 2008 | \$ 119,325 | \$ 39,873 | \$ 159,198 |
| Adjustments to goodwill | | | |
| Balance, March 31, 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 \$8.6 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 March 31, 2009 and December 31, 2008 was as follows:

| (dollars in thousands) | Gross Carrying Amount | Accumulated Amortization and Impairment | Net Carrying Amount |
|---------------------------------|--------------------------------------|--|------------------------------------|
| March 31, 2009 | | | |
| Amortized intangible assets: | | | |
| Core deposit | \$ 26,810 | \$ (7,606) | \$ 19,204 |
| Customer business relationships | 25,753 | (10,688) | 15,065 |
| Customer loan relationships | 4,413 | (869) | 3,544 |
| Total intangible assets | \$ 56,976 | \$ (19,163) | \$ 37,813 |
| December 31, 2008 | | | |
| 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 |
| Total intangible assets | \$ 45,789 | \$ (18,161) | \$ 27,628 |

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. Total amortization expense associated with other intangible assets for the three months ended March 31 was \$1.0 million in 2009 and \$0.9 million in 2008. Estimated amortization expense for future years is as follows:

| (dollars in thousands) | |
|------------------------|------------------|
| 2009 remaining | \$ 4,986 |
| 2010 | 6,130 |
| 2011 | 5,546 |
| 2012 | 4,840 |
| 2013 | 4,050 |
| Thereafter | 12,261 |
| Total | \$ 37,813 |

NOTE 10 ASSETS HELD FOR SALE

Assets held for sale are summarized as follows:

March 31, December 31,

| (dollars in thousands) | 2009 | 2008 |
|------------------------------|----------|----------|
| Assets held for sale: | | |
| Land | \$ 791 | \$ 791 |
| Building and improvements | 3,401 | 3,401 |
| Total | 4,192 | 4,192 |
| Accumulated depreciation | (2,200) | (2,200) |
| Assets held for sale net | \$ 1,992 | \$ 1,992 |

Included in assets held for sale at March 31, 2009 are four financial centers which are pending sale. Old National plans to continue occupying these properties under long-term lease arrangements. See note 16 to the consolidated financial statements for additional information on Old National's long-term lease arrangements.

Table of Contents**NOTE 11 FINANCING ACTIVITIES**

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

| (dollars in thousands) | March 31, 2009 | December 31, 2008 |
|--|---------------------------|------------------------------|
| 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 4.27%) maturing April 2032 to March 2035 | 108,000 | 108,000 |
| SFAS 133 fair value hedge and other basis adjustments | (759) | (771) |
| Old National Bank: | | |
| 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 | 400,123 | 425,198 |
| Subordinated bank notes (fixed rate 6.75%) maturing October 2011 | 150,000 | 150,000 |
| Capital lease obligation | 4,380 | 4,390 |
| SFAS 133 fair value hedge and other basis adjustments | (786) | (950) |
| Total other borrowings | \$ 809,958 | \$ 834,867 |

Contractual maturities of other borrowings at March 31, 2009, were as follows:

| (dollars in thousands) | |
|---|-------------------|
| Due in 2009 | \$ 2,030 |
| Due in 2010 | 99,043 |
| Due in 2011 | 275,046 |
| Due in 2012 | 150,688 |
| Due in 2013 | 106,405 |
| Thereafter | 178,291 |
| SFAS 133 fair value hedge and other basis adjustments | (1,545) |
| Total | \$ 809,958 |

FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances had weighted-average rates of 3.83% and 3.81% at March 31, 2009, and December 31, 2008, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 155% of outstanding debt.

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.

Table of Contents**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.

At March 31, 2009, the future minimum lease payments under the capital lease were as follows:

| | |
|---|----------|
| (dollars in thousands) | |
| 2009 remaining | \$ 292 |
| 2010 | 390 |
| 2011 | 390 |
| 2012 | 390 |
| 2013 | 390 |
| Thereafter | 11,314 |
| Total minimum lease payments | 13,166 |
| Less amounts representing interest | 8,786 |
| Present value of net minimum lease payments | \$ 4,380 |

Table of Contents**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.

Subsequent to March 31, 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, 2009.

TERM AUCTION FACILITY

On January 2, 2009, Old National borrowed \$100 million from the Federal Reserve under its Term Auction Facility. The borrowing has 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.

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. 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 three 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 months ended March 31:

| (dollars in thousands) | Three Months Ended | |
|--------------------------------|--------------------|---------|
| | March 31, | |
| | 2009 | 2008 |
| Interest cost | \$ 493 | \$ 536 |
| Expected return on plan assets | (483) | (792) |
| Recognized actuarial loss | 363 | 158 |
| Settlement | 350 | |
| Net periodic benefit cost | \$ 723 | \$ (98) |

Table of Contents**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, 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 quarter 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.

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

Restricted Stock Awards

The Company granted 72 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 March 31, 2009, unrecognized compensation expense was estimated to be \$4.3 million for unvested restricted share awards. Old National recorded expense of \$0.4 million, net of tax benefit, during the first three months of 2009, compared to expense of \$0.5 million during the first three months of 2008 related to the vesting of restricted share awards. 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.

Restricted Stock Units

The Company granted 103 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 three months of 2009. The Company did not grant restricted stock units in 2008.

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:

| (dollars in thousands) | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2009 | 2008 |
| Provision at statutory rate of 35% | \$ 2,334 | \$ 4,839 |
| Tax-exempt income | (4,171) | (3,773) |
| Reversal of portion of unrecognized tax benefits | | (6,611) |
| State income taxes | (806) | 4 |
| Other, net | (93) | 26 |
| Income tax expense (benefit) | \$ (2,736) | \$ (5,515) |
| Effective tax rate | (41.0)% | (39.9)% |

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For the three months ended March 31, 2009, the effective tax rate was lower than the three months ended March 31, 2008. The main factor for the decrease in the effective tax rate for the three months ended March 31, 2009, was that the tax-exempt income comprised a higher percentage of pre-tax income in the three months ended March 31, 2009 than at March 31, 2008.

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) | 2009 |
| Balance at January 1 | \$ 7,513 |
| Additions based on tax positions related to the current year | 13 |
| Balance at March 31 | \$ 7,526 |

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

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 \$111.1 million and \$55.1 million at March 31, 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 March 31, 2009, the notional amount of the interest rate lock commitments and forward commitments were \$46.9 million and \$64.8 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 \$497.0 million and \$497.0 million, respectively, at March 31, 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:

| | Asset Derivatives | | | |
|--|------------------------------|------------------|------------------------------|------------------|
| | March 31, 2009 | | December 31, 2008 | |
| (dollars in thousands) | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated as hedging instruments under Statement 133 | | | | |
| Interest rate contracts | Other assets | \$ 1,122 | Other assets | \$ 1 |
| Total derivatives designated as hedging instruments under Statement 133 | | \$ 1,122 | | \$ 1 |
| Derivatives not designated as hedging instruments under Statement 133 | | | | |
| Interest rate contracts | Other assets | \$ 43,469 | Other assets | \$ 45,737 |
| Commodity contracts | Other assets | | Other assets | 130 |
| Foreign exchange contracts | Other assets | 178 | Other assets | 441 |
| Mortgage contracts | Other assets | 1,039 | Other assets | 459 |
| Total derivatives not designated as hedging instruments under Statement 133 | | \$ 44,686 | | \$ 46,767 |
| Total derivatives | | \$ 45,808 | | \$ 46,768 |

| | Liability Derivatives | | | |
|--|------------------------------|---------------|------------------------------|---------------|
| | March 31, 2009 | | December 31, 2008 | |
| (dollars in thousands) | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated as hedging instruments under Statement 133 | | | | |
| Interest rate contracts | Other liabilities | \$ | Other liabilities | \$ |
| Mortgage contracts | Other liabilities | | Other liabilities | |
| Total derivatives designated as hedging instruments under Statement 133 | | \$ | | \$ |
| Derivatives not designated as hedging instruments under Statement 133 | | | | |
| Interest rate contracts | Other liabilities | \$ 43,599 | Other liabilities | \$ 46,338 |
| Commodity contracts | Other liabilities | | Other liabilities | 130 |
| Foreign exchange contracts | | 178 | | 441 |

| | Other liabilities | | Other liabilities | |
|--|----------------------|------------------|----------------------|------------------|
| | Other liabilities | | Other liabilities | |
| Mortgage contracts | | 757 | | 505 |
| Total derivatives not designated as hedging instruments under Statement 133 | | \$ 44,534 | | \$ 47,414 |
| Total derivatives | | \$ 44,534 | | \$ 47,414 |

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The effect of derivative instruments on the Consolidated Statement of Income for the three months ended March 31, 2009 and 2008 are as follows:

| (dollars in thousands) | | Three months ended March 31, 2009 | Three months ended March 31, 2008 |
|---|--|--|--|
| Derivatives in Statement 133 | Location of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative | |
| Fair Value Hedging Relationships | | | |
| Interest rate contracts (1) | Interest income / (expense) | \$ 660 | \$ 263 |
| Interest rate contracts (2) | Other income / (expense) | 12 | 97 |
| Total | | \$ 672 | \$ 360 |

| (dollars in thousands) | | Three months ended March 31, 2009 | Three months ended March 31, 2008 |
|--|--|--|--|
| Derivatives Not Designated as Hedging Instruments under Statement 133 | Location of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative | |
| Interest rate contracts (1) | Interest income / (expense) | \$ (360) | \$ |
| Interest rate contracts (3) | Other income / (expense) | 472 | (713) |
| Mortgage contracts | Mortgage banking revenue | 328 | (134) |
| Total | | \$ 440 | \$ (847) |

(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 19 to the consolidated financial statements.

NOTE 16 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.) In March of 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 which is currently pending. Old National has objected to the plaintiffs motion to alter or amend the judgment granted in favor of Old National and will also contest any appeal the plaintiffs may file. There can be no assurance, however, that Old National will be successful, and an adverse resolution of the lawsuit could have a material adverse effect on its consolidated financial position and results of operations in the period in which the lawsuit is resolved. Old National is not presently able to reasonably estimate potential losses, if any, related to the lawsuit and has not recorded a liability in its accompanying Consolidated Balance Sheets.

Table of Contents**LEASES**

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.

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 \$1.137 billion and standby letters of credit of \$109.7 million at March 31, 2009. At March 31, 2009, approximately \$1.073 billion of the loan commitments had fixed rates and \$64 million had floating rates, with the fixed interest rates ranging from 1% to 21%. 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 March 31, 2009 and December 31, 2008, the balance of the allowance for unfunded loan commitments was \$3.7 million and \$3.5 million, respectively.

At March 31, 2009 and December 31, 2008 Old National had credit extensions of \$28.8 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 March 31, 2009 and December 31, 2008, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling \$25.0 million and \$25.0 million, respectively. Old National did not provide collateral for the remaining credit extensions.

NOTE 17 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 March 31, 2009, the notional amount of standby letters of credit was \$109.7 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 March 31, 2009.

Table of Contents**NOTE 18 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.

Summarized financial information concerning segments is shown in the following table for the three months ended March 31:

| (dollars in thousands) | Community Banking | Treasury | Other | Total |
|--|------------------------------|-----------------|--------------|--------------|
| Three months ended March 31, 2009 | | | | |
| Net interest income | \$ 69,458 | \$ (9,754) | \$ (506) | \$ 59,198 |
| Provision for loan losses | 17,300 | | | 17,300 |
| Noninterest income | 20,176 | 4,200 | 17,859 | 42,235 |
| Noninterest expense | 59,478 | 1,448 | 16,538 | 77,464 |
| Income (loss) before income taxes | 12,856 | (7,002) | 815 | 6,669 |
| Total assets | 4,853,040 | 3,392,117 | 110,911 | 8,356,068 |
| Three months ended March 31, 2008 | | | | |
| Net interest income | \$ 63,240 | \$ (3,029) | \$ (421) | \$ 59,790 |
| Provision for loan losses | 21,886 | 19 | | 21,905 |
| Noninterest income | 19,101 | 6,643 | 21,132 | 46,876 |
| Noninterest expense | 51,915 | 1,335 | 17,686 | 70,936 |
| Income before income taxes | 8,540 | 2,260 | 3,025 | 13,825 |
| Total assets | 4,935,482 | 2,670,811 | 117,173 | 7,723,466 |

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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.

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:

| | Carrying Value | Fair Value Measurements at March 31, 2009 | | |
|------------------------|----------------|--|-----------------------------------|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Using Significant Other Significant Unobservable Inputs (Level 3) |
| (dollars in thousands) | | | | |

Financial Assets

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| | | | |
|--|--------------|--------------|-----------|
| Investment securities available-for-sale | \$ 2,710,303 | \$ 2,699,148 | \$ 11,155 |
| Residential loans held for sale | 19,609 | 19,609 | |
| Derivative assets | 45,808 | 45,808 | |
| Financial Liabilities | | | |
| Certain retail certificates of deposit | 6,034 | 6,034 | |
| Derivative liabilities | 44,534 | 44,534 | |

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| | Carrying Value | Fair Value Measurements at December 31, 2008 | | |
|--|----------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Using Significant Other Observable Inputs (Level 2) | Using Significant Unobservable Inputs (Level 3) |
| (dollars in thousands) | | | | |
| Financial Assets | | | | |
| 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 | 49,309 | | 49,309 | |
| Derivative liabilities | 47,414 | | 47,414 | |

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 quarter ended March 31, 2009:

| | Fair Value Measurements using Significant Unobservable Inputs (Level 3) |
|---|---|
| (dollars in thousands) | |
| Beginning balance, January 1, 2009 | \$ 19,668 |
| Accretion/amortization of discount or premium | (5) |
| Payments received | (17) |
| Decease in fair value of securities | (8,491) |
| Transfers in and/or out of Level 3 | |
| Ending balance, March 31, 2009 | \$ 11,155 |

Included in the income statement is \$5 thousand in interest expense from the amortization of discounts on securities. The decrease in market value is reflected in the balance sheet as a reduction in the fair value of investment securities available-for sale, a decrease in accumulated other comprehensive income, which is included in shareholders' equity, and an increase in other assets related to the tax impact.

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

| | Fair Value Measurements at March 31, 2009 |
|--|---|
| | Using Significant Other Significant |

| (dollars in thousands) | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|-------------------------|-------------------|---|-----------------------------------|-------------------------------------|
| Financial Assets | | | | |
| Impaired loans | \$ 30,434 | | | \$ 30,434 |

Fair Value Measurements at December 31, 2008

| (dollars in thousands) | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Using Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------|-------------------|---|--|--|
| Financial Assets | | | | |
| Impaired loans | \$ 24,826 | | | \$ 24,826 |

Impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of \$48.9 million, with a valuation allowance of \$18.4 million at March 31, 2009.

Table of Contents**Financial instruments recorded using SFAS No. 159**

Under SFAS No. 159, the Company may elect to report most financial instruments and certain other items at fair value on an instrument-by instrument basis with changes in fair value reported in net income. After the initial adoption, the election is made at the acquisition of an eligible financial asset, financial liability or firm commitment or when certain specified reconsideration events occur. The fair value election may not be revoked once an election is made.

Additionally, the transition provisions of SFAS No. 159 permit a one-time election for existing positions at the adoption date with a cumulative-effect adjustment included in beginning retained earnings and future changes in fair value reported in net income. The Company did not elect the fair value option for any existing position at January 1, 2008.

The Company did elect the fair value option under SFAS No. 159 prospectively for the following items:

Residential mortgage loans held for sale

Certain retail certificates of deposit

For items for which the fair value option has been elected, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on financial assets (except any that are on nonaccrual status). Included in the income statement are \$136 thousand and \$96 thousand of interest income for residential loans held for sale for the three months ended March 31, 2009 and 2008, respectively. Interest expense is recorded based on the contractual amount of interest expense incurred. The income statement includes \$71 thousand and \$144 thousand of interest expense for the three months ended March 31, 2009 and 2008, respectively, for certain retail certificates of deposit under SFAS No. 159.

Residential mortgage loans held for sale

Old National has elected the fair value option under SFAS No. 159 for newly originated conforming fixed-rate and adjustable-rate first mortgage loans held for sale. These loans are intended for sale and are hedged with derivative instruments. None of these loans are 90 days or more past due, nor are any on nonaccrual status. Old National has elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification. The fair value option was not elected for loans held for investment. This election was effective for applicable loans originated after January 1, 2008.

Certain retail certificates of deposit

Old National has elected the fair value option under SFAS No. 159 for certain retail certificates of deposit; specifically, pools of retail certificates of deposit that have been matched with derivative instruments. Old National has elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification. This election was adopted prospectively for certain retail certificates of deposit originated after January 1, 2008.

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

| (dollars in thousands) | Aggregate Fair Value | Difference | Contractual Principal |
|--|---------------------------------|-------------------|----------------------------------|
| Residential loans held for sale | \$ 19,609 | \$ 604 | \$ 19,005 |
| Certain retail certificates of deposit | 6,034 | 144 | 5,890 |

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

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

| | Other | | | Total Changes in Fair Values Included in Current Period Earnings |
|--|-------------------------------|----------------------------|-------------------------------|---|
| (dollars in thousands) | Gains and (Losses) | Interest Income | Interest (Expense) | |
| Residential loans held for sale | \$ 605 | \$ | \$ (1) | \$ 604 |
| Certain retail certificates of deposit | (61) | | (83) | (144) |

As of March 31, 2008, the difference between the aggregate fair value and the aggregate remaining principal balance for loans and certificates of deposit for which the fair value option has been elected was as follows. Accrued interest at period end is included in the fair value of the instruments.

| (dollars in thousands) | Aggregate Fair Value | Difference | Contractual Principal |
|--|---------------------------------|-------------------|----------------------------------|
| Residential loans held for sale | \$ 10,155 | \$ 168 | \$ 9,987 |
| Certain retail certificates of deposit | 41,429 | 296 | 41,133 |

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the three months ended March 31, 2008:

**Changes in Fair Value for the Three Months ended March 31, 2008, for Items
Measured at Fair Value Pursuant to Election of the Fair Value Option**

| | Other | | | Total Changes in Fair Values Included in Current Period Earnings |
|--|-------------------------------|----------------------------|-------------------------------|---|
| (dollars in thousands) | Gains and (Losses) | Interest Income | Interest (Expense) | |
| Residential loans held for sale | \$ 166 | \$ 2 | \$ | \$ 168 |
| Certain retail certificates of deposit | (152) | | (144) | (296) |

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In accordance with FSP FAS 107-1, the carrying amounts and estimated fair values of financial instruments, not previously presented, at March 31, 2009 and December 31, 2008 are as follows:

| (dollars in thousands) | Carrying Value | Fair Value |
|---|---------------------------|-----------------------|
| March 31, 2009 | | |
| Financial Assets | | |
| Cash, due from banks, federal funds sold and money market investments | \$ 174,095 | \$ 174,095 |
| Investment securities held-to-maturity | 92,989 | 95,334 |
| Federal Home Loan Bank stock | 41,090 | 41,090 |
| Loans, net (including impaired loans) | 4,549,757 | 4,784,034 |
| Accrued interest receivable | 48,248 | 48,248 |
| Financial Liabilities | | |
| Deposits | \$ 5,848,704 | \$ 5,901,495 |
| Short-term borrowings | 827,092 | 827,078 |
| Other borrowings | 809,958 | 816,260 |
| Accrued interest payable | 17,369 | 17,369 |
| Standby letters of credit | 496 | 496 |
| Off-Balance Sheet Financial Instruments | | |
| Commitments to extend credit | \$ | \$ 2,876 |
| | | |
| (dollars in thousands) | Carrying Value | Fair Value |
| December 31, 2008 | | |
| Financial Assets | | |
| Cash, due from banks, federal funds sold and money market investments | \$ 193,012 | \$ 193,012 |
| Investment securities held-to-maturity | 99,661 | 100,831 |
| Federal Home Loan Bank stock | 41,090 | 41,090 |
| Loans, net (including impaired loans) | 4,693,272 | 4,997,869 |
| Accrued interest receivable | 49,030 | 49,030 |
| Financial Liabilities | | |
| Deposits | \$ 5,372,978 | \$ 5,425,134 |
| Short-term borrowings | 649,623 | 649,610 |
| Other borrowings | 834,867 | 850,569 |
| Accrued interest payable | 14,954 | 14,954 |
| Standby letters of credit | 494 | 494 |
| Off-Balance Sheet Financial Instruments | | |
| Commitments to extend credit | \$ | \$ 1,614 |

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

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

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

Federal Home Loan Bank Stock: The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

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

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

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

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

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

Off-balance sheet financial instruments: Fair values for off-balance sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements. For further information regarding the notional amounts of these financial instruments, see Notes 16 and 17.

PART I. FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is an analysis of our results of operations for the three months ended March 31, 2009 and 2008, and financial condition as of March 31, 2009, compared to March 31, 2008, and December 31, 2008. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes.

This discussion contains forward-looking statements concerning our business that are based on estimates and involves certain risks and uncertainties. Therefore, future results could differ significantly from our current expectations and the related forward-looking statements.

EXECUTIVE SUMMARY

Old National began 2009 celebrating its 175th anniversary. The company has grown from about \$160 thousand in assets in 1834 to approximately \$8.4 billion today.

On March 20, 2009, Old National completed the acquisition of Citizens Financial's Indiana franchise. This acquisition adds 65 locations to our footprint and positions Old National with the third largest branch network in the state of Indiana. Included in the purchase were 6 full-service banking centers, 59 in-store locations and 66 ATMs. The in-store locations are inside select general merchandise and food stores. Some of these branches overlap with certain of Old National's existing financial centers and management has announced plans to close eight of these banking centers which could result in \$8.0 to \$10.0 million of additional costs associated with the acquisition in 2009. As always, the Company will continue to rationalize our branch network based on traffic patterns and customer needs.

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On March 31, 2009, Old National repurchased all of the \$100 million in preferred, non-voting stock that was sold to the U.S. Department of Treasury as part of the Capital Purchase Program. Subsequent to quarter end, the Company submitted its notice of intent to repurchase the Warrant for up to 813,008 shares of the Company's common stock issued by the Company to Treasury on December 12, 2008. The Warrant was issued in connection with the Company's participation in Treasury's Capital Purchase Program. This repurchase will be the second and final phase required of Old National to end its participation in the Capital Purchase Program (CPP).

Net income for the first quarter of 2009 is \$9.4 million, compared to \$6.6 million and \$19.3 million for the quarters ended December 31, 2008 and March 31, 2008, respectively. Results for the first quarter of 2009 were impacted by a \$3.0 million charge for direct acquisition costs related to the acquisition of Charter One's Indiana franchise and net securities gains of \$5.6 million, which were partially offset by other-than-temporary impairment of \$2.4 million realized during the quarter. The first quarter of 2009 also includes \$2.4 million of seasonal insurance contingency revenue.

Net interest margin in the first quarter of 2008 was 3.63% compared to 3.96% during the fourth quarter of 2008, and 3.68% year-over-year. The margin retreated in the first quarter of 2009 despite a slight increase in average earning assets due to our shift to a more asset sensitive balance sheet, or a balance sheet in which assets re-price more quickly than funding costs. Management is taking action to reduce our asset sensitivity and increase asset yields.

Although we believe our conservative stance toward underwriting policies and real estate lending has positioned us well, the credit markets continue to be a challenge in 2009. We recorded provision expense of \$17.3 million during the first quarter and are seeing credit quality starting to soften in expanded sectors. Non-accrual loans increased \$13.4 million compared to the prior quarter, however, criticized and classified loans improved slightly. We remain cautious on consumer, construction and commercial real estate credit quality. As a percent of total loans, the allowance was 1.55% at March 31, 2009, compared to 1.41% and 1.54% at December 31, 2008 and March 31, 2008, respectively. Annualized net charge-offs were 1.07% of average loans in the first quarter of 2009 compared to 1.14% in the fourth quarter of 2008, and 0.52% year-over-year. Nonperforming loans totaled 1.67% of total loans at March 31, 2009, compared to 1.34% at December 31, 2008 and 1.50% a year ago.

During the remainder of 2009, maintaining our well-capitalized position will be our primary focus. On April 23, 2009, we announced our intent to reduce the second quarter dividend to \$0.07 per share. Until the economy emerges from this challenging environment, we feel it is only prudent to conserve capital. Our ability to grow organically or through future bank acquisition opportunities will be predicated on our ability to remain a strong and profitable bank.

Table of Contents**RESULTS OF OPERATIONS**

The following table sets forth certain income statement information of Old National for the three months ended March 31, 2009 and 2008:

| (dollars in thousands) | Three Months Ended | | % Change |
|----------------------------------|--------------------|-------------------|-------------|
| | 2009 | March 31, 2008 | |
| Income Statement Summary: | | | |
| Net interest income | \$ 59,198 | \$ 59,790 | (1.0)% |
| Provision for loan losses | 17,300 | 21,905 | (21.0) |
| Noninterest income | 42,235 | 46,876 | (9.9) |
| Noninterest expense | 77,464 | 70,936 | 9.2 |
| Other Data: | | | |
| Return on average common equity | 3.43% | 11.51% | |
| Efficiency ratio | 72.20 | 63.87 | |
| Tier 1 leverage ratio | 7.30 | 8.03 | |
| Net charge-offs to average loans | 1.07 | 0.52 | |

Net Interest Income

Net interest income is our most significant component of earnings, comprising over 58% of revenues at March 31, 2009. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources and interest rate fluctuations. Other factors include prepayment risk on mortgage and investment-related assets and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from client deposits generally cost less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize our mix of assets and funding and our net interest income and margin.

Net interest income and net interest margin in the following discussion are presented on a fully taxable equivalent basis, which adjusts tax-exempt or nontaxable interest income to an amount that would be comparable to interest subject to income taxes using the federal statutory tax rate of 35% in effect for all periods. Net income is unaffected by these taxable equivalent adjustments as the offsetting increase of the same amount is made to income tax expense. Net interest income includes taxable equivalent adjustments of \$5.9 million and \$4.4 million for the three months ended March 31, 2009 and 2008, respectively.

Taxable equivalent net interest income was \$65.1 million for the three months ended March 31, 2009, up from the \$64.2 million reported for the three months ended March 31, 2008. The net interest margin was 3.63% for the three months ended March 31, 2009, compared to 3.68% for the three months ended March 31, 2008. The increase in net interest income is primarily due to the increase in interest earning assets being greater than the increase in interest-bearing liabilities. The decrease in net interest margin is primarily due to a change in the mix of interest earning assets and interest-bearing liabilities. The yield on average earning assets decreased 98 basis points from 6.25% to 5.27%. The cost of interest-bearing liabilities decreased 105 basis points from 2.98% to 1.93%.

Average earning assets were \$7.177 billion for the three months ended March 31, 2009, compared to \$6.974 billion for the three months ended March 31, 2008, an increase of 2.9%, or \$203.5 million. Significantly affecting average earning assets at March 31, 2009 compared to March 31, 2008, was the increase in the size of the investment portfolio combined with the reduction of the size of the loan portfolio. During the three months ended March 31, 2009, \$836.9 million of investment securities were purchased and \$191.2 million of investment securities were called by the issuers or sold. In addition, commercial and commercial real estate loans have been affected by continued weak loan demand in our markets, more stringent loan underwriting standards and our desire to lower future potential credit risk by being cautious towards the real estate market. Year over year, the investment portfolio, which generally has an average yield lower than the loan portfolio, has increased as a percent of interest earning assets.

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Also affecting margin was an increase in noninterest-bearing demand deposits and time deposits. Included in deposits at March 31, 2009 are \$89.8 million of noninterest-bearing deposits and \$162.8 million of time deposits from the Citizens Financial branch acquisition. During 2008, \$137.6 million of high cost brokered certificates of deposit were called or matured and \$100.5 million of retail certificates of deposit were called. A \$50 million bank note matured in the first quarter of 2008 and \$100 million of medium-term notes matured in the second quarter of 2008. In addition, \$51 million of FHLB advances matured in the last half of 2008 and a revolving credit facility with \$55 million outstanding was paid off in the fourth quarter of 2008. During the first quarter of 2009, \$65.0 million of high cost brokered certificates of deposit were called and \$50.9 million of retail certificates of deposit were called. In addition, \$25.0 million of FHLB advances were prepaid in the first quarter of 2009. Year over year, brokered certificates of deposit, which have an average interest rate higher than other types of deposits, have decreased as a percent of interest-bearing liabilities. Borrowed funds have increased as a percent of interest-bearing liabilities, due to our ability to obtain low-cost short-term borrowings. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding.

Provision for Loan Losses

The provision for loan losses was \$17.3 million for the three months ended March 31, 2009, compared to \$21.9 million for the three months ended March 31, 2008. Included in the 2008 provision is \$17.0 million associated with the misconduct of a former loan officer in the Indianapolis market and subsequent deterioration of these credits. See the discussion in Allowance for Loan Losses and Reserve for Unfunded Commitments in the Risk Management section of Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Noninterest Income

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products and insurance. Noninterest income for the three months ended March 31, 2009, was \$42.2 million, a decrease of \$4.7 million, or 9.9%, from the \$46.9 million reported for the three months ended March 31, 2008.

Net securities gains were \$3.2 million for the three months ended March 31, 2009, compared to net securities gains of \$4.5 million for the three months ended March 31, 2008. Included in the first quarter of 2009 is a \$2.4 million charge for other-than-temporary-impairment on three pooled trust preferred securities. The 2008 net securities gains were primarily the result of securities which were called by the issuers.

Wealth management fees were \$3.8 million for the three months ended March 31, 2009 as compared to \$4.6 million for the three months ended March 31, 2008. Trust fee income has declined as a result of lower market values of managed assets.

Revenue from company-owned life insurance was \$0.7 million for the three months ended March 31, 2009 compared to \$2.8 million for the three months ended March 31, 2008. During the third quarter of 2008, the crediting rate formula for the 1997 company-owned life insurance policy was amended to adopt a more conservative position and improve the overall market to book value ratio. This change resulted in lower revenues in the first quarter of 2009 and we anticipate these lower revenue levels to continue in future periods.

Fluctuations in the value of our derivatives resulted in a gain on derivatives of \$0.5 million in the first quarter of 2009 as compared to a loss on derivatives of \$0.6 million in the first quarter of 2008.

Other income decreased \$1.5 million for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008. The decrease was primarily as a result of a \$1.5 million gain associated with the redemption of class B VISA shares recorded during the first quarter of 2008.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2009, totaled \$77.5 million, an increase of \$6.5 million, or 9.2%, from the \$70.9 million recorded for the three months ended March 31, 2008. Included in noninterest expense for the first quarter of 2009 is approximately \$3.0 million of one-time expenses related to the Citizens Financial branch acquisition.

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Salaries and benefits is the largest component of noninterest expense. For the three months ended March 31, 2009, salaries and benefits were \$42.7 million compared to \$42.3 million for the three months ended March 31, 2008. Included in the first quarter of 2009 is an increase of approximately \$0.8 million for pension expense and \$0.4 million for higher medical insurance expenses. Partially offsetting these increases was a \$1.0 million reversal of performance-based incentive compensation expense.

Occupancy expense increased \$0.9 million for the three months ended March 31, 2009, compared to the three months ended March 31, 2008, primarily as a result of an increase in rent expense. Utilities expense and real estate taxes also increased for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008. The increase in rent expense is related to the sale leaseback transactions discussed in Note 16 to the consolidated financial statements and the additional 65 branches acquired from Citizens Financial.

Professional fees increased \$1.0 million for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008. Increases in legal and other professional fees related to the Citizens Financial branch acquisition were the primary reason for the increase.

FDIC assessment expense was \$2.1 million for the three months ended March 31, 2009, compared to \$0.3 million for the three months ended March 31, 2008. The increase is primarily due to the increase in the rates banks pay for deposit insurance. The FDIC implemented a special assessment of 20 basis points taking effect on April 1, 2009 that will apply to assessments for the second quarter of 2009 and thereafter. We anticipate a significant increase in our assessment expense in 2009 as a result of both the increase in the assessment and the expiration of our one-time assessment credit. It is possible that certain legislation, if passed in the future, could reduce the special assessment to 10 basis points or lower.

Other expense for the three months ended March 31, 2009, totaled \$4.1 million, an increase of \$1.9 million compared to the three months ended March 31, 2008. The provision for unfunded commitments increased \$0.8 million for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008. Included in the first quarter of 2009 is approximately \$1.0 million of one-time expenses related to the acquisition of the retail branch banking network of Citizens Financial Group.

Provision for Income Taxes

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was (41.0)% for the three months ended March 31, 2009, compared to (39.9)% for the three months ended March 31, 2008. The main factor for the decrease in the effective tax rate for the three months ended March 31, 2009, was that the tax-exempt income comprised a higher percentage of pre-tax income in the three months ended March 31, 2009 than at March 31, 2008. See Note 14 to the consolidated financial statements for additional information.

FINANCIAL CONDITION**Overview**

At March 31, 2009, our assets were \$8.356 billion, a 8.2% increase compared to March 31, 2008 assets of \$7.723 billion, and an annualized increase of 24.5% compared to December 31, 2008 assets of \$7.874 billion. On March 20, 2009, Old National completed its acquisition of the Indiana retail branch banking network of Citizens Financial Group, which increased assets by approximately \$424.7 million. The increase in investment securities in the past twelve months more than offset the decrease in the loan portfolio and cash and cash equivalents. Year over year, deposits have increased, primarily due to the Citizens Financial branch acquisition, and to a lesser extent, increases in organic core deposit growth. Borrowed funds have increased due to our ability to obtain low-cost short-term borrowings.

Table of Contents**Earning Assets**

Our earning assets are comprised of investment securities, loans and loans held for sale, and money market investments. Earning assets were \$7.528 billion at March 31, 2009, an increase of 8.9% from March 31, 2008, and an annualized increase of 25.7% since December 31, 2008.

Investment Securities

We classify investment securities primarily as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we also have some 15- and 20-year fixed-rate mortgage pass-through securities in our held-to-maturity investment portfolio.

At March 31, 2009, the investment securities portfolio was \$2.844 billion compared to \$2.147 billion at March 31, 2008, an increase of \$697.6 million or 32.5%. Investment securities increased \$578.6 million compared to December 31, 2008, an annualized increase of 102.1%. Investment securities represented 37.8% of earning assets at March 31, 2009, compared to 31.1% at March 31, 2008, and 32.0% at December 31, 2008. Funds received in the Citizens Financial branch acquisition have been invested primarily in investment securities. Commercial and commercial real estate loans have been affected by continued weak loan demand in our markets, more stringent loan underwriting standards and our desire to lower future potential credit risk by being cautious towards the real estate market. Stronger commercial loan demand in the future could result in increased investments in loans and a reduction in the investment securities portfolio.

The investment securities available-for-sale portfolio had net unrealized losses of \$57.0 million at March 31, 2009, an increase of \$54.1 million compared to net unrealized losses of \$2.9 million at March 31, 2008, and a decrease of \$7.6 million compared to net unrealized losses of \$64.6 million at December 31, 2008. A \$2.4 million charge was recorded during the first quarter of 2009 related to other-than-temporary-impairment on three pooled trust preferred securities. Contributing to the volatility in net unrealized losses over the past twelve months are changes in interest rates and the financial crisis affecting the banking system and financial markets.

The investment portfolio had an average duration of 4.64 years at March 31, 2009, compared to 3.56 years at March 31, 2008, and 3.87 years at December 31, 2008. The annualized average yields on investment securities, on a taxable equivalent basis, were 5.45% for the three months ended March 31, 2009, compared to 5.07% for the three months ended March 31, 2008, and 5.62% for the three months ended December 31, 2008.

Residential Loans Held for Sale

Residential loans held for sale were \$19.6 million at March 31, 2009, compared to \$10.2 million at March 31, 2008, and \$17.2 million at December 31, 2008. Residential loans held for sale are loans that are closed, but not yet purchased by investors. The amount of residential loans held for sale on the balance sheet varies depending on the amount of originations and timing of loan sales to the secondary market. The increase in residential loans held for sale from March 31, 2008, is primarily attributable to increased activity in residential lending in late 2008 and the first quarter of 2009.

We elected the fair value option under SFAS No. 159 prospectively for residential loans held for sale. The election was effective for loans originated after January 1, 2008. The aggregate fair value exceeded the unpaid principal balances by \$0.6 million, \$0.6 million and \$0.2 million as of March 31, 2009, December 31, 2008 and March 31, 2008, respectively.

Commercial and Commercial Real Estate Loans

Commercial and commercial real estate loans are the largest classification within earning assets, representing 39.1% of earning assets at March 31, 2009, a decrease from 43.1% at March 31, 2008, and a decrease from 43.2% at December 31, 2008. At March 31, 2009, commercial and commercial real estate loans were \$2.943 billion, a decrease of \$32.3 million since March 31, 2008, and a decrease of \$109.6 million since December 31, 2008. Commercial loans have increased \$69.2 million since March 31, 2008 while commercial real estate loans have decreased \$101.5 million since March 31, 2008. Weak loan demand in our markets continues to affect loan growth. Our conservative underwriting standards have also contributed to slower loan growth. We continue to be cautious towards the real estate market in an effort to lower credit risk.

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At March 31, 2009, consumer loans, including automobile loans, personal and home equity loans and lines of credit, and student loans, increased \$13.0 million or 1.1% compared to March 31, 2008, and decreased \$21.2 million or, annualized, 7.0% since December 31, 2008.

Residential Real Estate Loans

Residential real estate loans, primarily 1-4 family properties, have decreased in significance to the loan portfolio over the past five years due to higher levels of loan sales into the secondary market, primarily to private investors. We sell the majority of residential real estate loans originated as a strategy to better manage interest rate risk and liquidity. We sell almost all residential real estate loans servicing released without recourse.

At March 31, 2009, residential real estate loans were \$488.5 million, a decrease of \$40.0 million, or 7.6%, from March 31, 2008.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at March 31, 2009, totaled \$205.6 million, an increase of \$15.3 million compared to \$190.3 million at March 31, 2008, and an increase of \$18.8 million compared to \$186.8 million at December 31, 2008. We recorded \$19.8 million of goodwill and other intangible assets associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which is included in the Community Banking column for segment reporting. The remaining decreases were the result of standard amortization expense related to the other intangible assets.

Assets Held for Sale

Assets held for sale were \$2.0 million at March 31, 2009, a decrease of \$1.0 million compared to \$3.0 million at March 31, 2008. The sale leaseback transactions during 2008 were the reason for the decline. Included in assets held for sale at March 31, 2009 are four financial centers that are pending sale. We plan to continue occupying these properties under long-term lease agreements.

Other assets have increased \$74.1 million, or 47.5%, since March 31, 2008, primarily as a result of an increase in deferred tax assets and fluctuations in the fair value of derivative financial instruments.

Funding

Total funding, comprised of deposits and wholesale borrowings, was \$7.492 billion at March 31, 2009, an increase of 9.8% from \$6.822 billion at March 31, 2008, and an annualized increase of 33.9% from \$6.907 billion at December 31, 2008. Included in total funding were deposits of \$5.855 billion at March 31, 2009, an increase of \$508.3 million, or 9.5%, compared to March 31, 2008, and an increase of \$432.5 million compared to December 31, 2008. Included in total deposits at March 31, 2009 is \$427.6 million from the acquisition of the Indiana retail branch banking network of Citizens Financial Group. In 2008, we called \$100.5 million of retail certificates of deposit; and \$137.6 million of high cost brokered certificates of deposit were called or matured. During the first quarter of 2009, \$65.0 million of high cost brokered certificates of deposit were called and \$50.9 million of retail certificates of deposit were called. Noninterest-bearing deposits increased 20.7% or \$178.2 million compared to March 31, 2008. Time deposits increased 22.2% or \$384.2 million compared to March 31, 2008. Year over year, we have experienced a shift into lower cost deposit types.

Effective January 1, 2008, we elected the fair value option under SFAS No. 159 prospectively for certain retail certificates of deposit. The carrying value of these retail certificates of deposit was \$6.0 million, \$49.3 million and \$41.4 million as of March 31, 2009, December 31, 2008 and March 31, 2008, respectively. The carrying values at March 31, 2009, December 31, 2008 and March 31, 2008 were comprised of contractual balances of \$5.9 million, \$48.5 million and \$41.1 million and fair value adjustments of \$0.1 million, \$0.8 million and \$0.3 million, respectively. We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At March 31, 2009, wholesale borrowings, including short-term borrowings and other borrowings, increased \$161.7 million, or 11.0%, from March 31, 2008 and increased \$152.6 million, or 41.1%, annualized, from December 31, 2008, respectively. Wholesale funding as a percentage of total funding was 21.9% at March 31, 2009, compared to 21.6% at March 31, 2008, and 21.5% at December 31, 2008. Short-term borrowings have increased \$186.6 million since March 31, 2008 while long-term borrowings have decreased \$24.9 million since March 31, 2008. We purchased \$380.0 of million low-cost FHLB advances during 2008. In addition, \$100 million of medium-term notes matured in

the second quarter of 2008, \$51.0 million of FHLB advances matured in the last half of 2008 and a revolving credit facility with \$55.0 million outstanding was paid off in the fourth quarter of 2008. During the first quarter of 2009, \$25.0 million of FHLB advances were prepaid.

Table of Contents**Capital**

Shareholders' equity totaled \$631.8 million at March 31, 2009, compared to \$675.4 million at March 31, 2008, and \$730.9 million at December 31, 2008. The primary reason for the increase in shareholders' equity at December 31, 2008, was the issuance of non-voting preferred shares and common stock warrants to the Treasury Department as part of the Capital Purchase Program for healthy financial institutions. On March 31, 2009, we accelerated the accretion of the \$2.6 million discount and repurchased all of the \$100 million of non-voting preferred shares from the Treasury Department, which is the primary reason for the decrease in shareholders' equity at March 31, 2009. The common stock warrants were still outstanding at March 31, 2009, but we anticipate they will be repurchased during the second quarter of 2009.

As part of the TARP CPP, we entered into a Letter Agreement and Securities Purchase Agreement with the Treasury Department on December 12, 2008, pursuant to which Old National sold (i) 100,000 shares of Old National's Fixed Rate Cumulative Perpetual Preferred Stock, Series T (the "Series T Preferred Stock") and (ii) warrants (the "Warrants") to purchase up to 813,008 shares of Old National's common stock at an initial per share exercise price of \$18.45.

The Series T Preferred Stock qualified as Tier 1 capital and the Treasury Department was entitled to cumulative dividends at a rate of 5% per year for the first five years, and 9% per year thereafter. The Preferred Stock had priority in the payment of dividends over any cash dividends paid to common stockholders. The adoption of ARRA permitted Old National to redeem the Series T Preferred Stock without penalty and without the need to raise new capital, subject to the Treasury's consultation with Old National's regulatory agency. The Warrant has a 10-year term and is immediately exercisable upon its issuance. Subsequent to quarter-end, Old National submitted its intent to repurchase the warrant from the Treasury Department.

During the fourth quarter of 2007, we declared a cash dividend of \$0.23 per share to be paid in the first quarter of 2008, which was included in the fourth quarter 2007 financial results. We declared cash dividends of \$0.23 per share for the three months ended March 31, 2009, which reduced equity by \$15.3 million. We also accrued dividends on the preferred shares for the three months ended March 31, 2009, which reduced equity by \$1.2 million. We repurchased shares of our stock, reducing shareholders' equity by \$0.3 million during the three months ended March 31, 2009, and \$0.2 million during the three months ended March 31, 2008. The repurchases related to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by \$4.9 million during the three months ended March 31, 2009, and \$2.4 million during the three months ended March 31, 2008. Shares issued for stock options, restricted stock and stock compensation plans increased shareholders' equity by \$2.3 million during the three months ended March 31, 2009, compared to \$0.9 million during the three months ended March 31, 2008.

Capital Adequacy

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. At March 31, 2009, Old National and its bank subsidiary exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory definition. To be categorized as well-capitalized, the bank subsidiary must maintain at least a total risk-based capital ratio of 10.0%, a Tier 1 risk-based capital ratio of 6.0% and a Tier 1 leverage ratio of 5.0%. Regulatory capital ratios have decreased from December 31, 2008 levels primarily due to the repurchase of \$100 million of preferred shares from the Treasury Department on March 31, 2009.

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As of March 31, 2009, Old National's consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

| | Regulatory | | | |
|---|-------------------|------------------|-------------|-----------------|
| | Guidelines | March 31, | | December |
| | Minimum | 2009 | 2008 | 31, |
| | | | | 2008 |
| Risk-based capital: | | | | |
| Tier 1 capital to total avg assets (leverage ratio) | 4.00% | 7.30% | 8.03% | 9.50% |
| Tier 1 capital to risk-adjusted total assets | 4.00 | 9.89 | 10.95 | 12.73 |
| Total capital to risk-adjusted total assets | 8.00 | 12.20 | 13.84 | 15.06 |
| Shareholders' equity to assets | N/A | 7.56 | 8.74 | 9.28 |

RISK MANAGEMENT**Overview**

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

Credit Risk

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

Investment Activities

Within our securities portfolio, the non-agency collateralized mortgage obligations represent the greatest exposure to the current instability in the residential real estate and credit markets. At March 31, 2009, we had non-agency collateralized mortgage obligations of \$209.2 million or approximately 7.7% of the available-for-sale securities portfolio. The unrealized loss on these securities at March 31, 2009, was approximately \$59.3 million.

We expect conditions in the overall residential real estate and credit markets to remain uncertain for the foreseeable future. Deterioration in the performance of the underlying loan collateral could result in deterioration in the performance of our asset-backed securities.

With regard to our non-agency collateralized mortgage obligations, we do not believe that any individual unrealized loss represents an other-than-temporary impairment at March 31, 2009. The majority of the unrealized losses on mortgage-backed securities are attributable to both changes in interest rates and financial market stress.

We also carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and performance of underlying collateral. At March 31, 2009, we had pooled trust preferred securities with a fair value of approximately \$11.2 million, or 0.4% of the available-for-sale securities portfolio. During the quarter, we determined that three of these securities had other-than-temporary-impairment as a result of additional defaults or deferrals during the period. A \$2.4 million charge related to the credit loss was realized in earnings during the period. These securities remained classified as available-for-sale and at March 31, 2009 the unrealized loss on our pooled trust preferred securities was approximately \$35.3 million.

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

Counterparty Exposure

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation in a financial transaction. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National's net counterparty exposure was a liability of \$66.2 million at March 31, 2009.

Table of Contents**Lending Activities**

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

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. At March 31, 2009, we had no concentration of loans in any single industry exceeding 10% of its portfolio and had no exposure to foreign borrowers or lesser-developed countries. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Illinois and Kentucky. We continue to be affected by weakness in the economy of our principal markets. Management expects that trends in under-performing, criticized and classified loans will be influenced by the degree to which the economy strengthens or weakens.

Summary of under-performing, criticized and classified assets:

| (dollars in thousands) | March 31, | | December |
|--|-------------------|-------------|-----------------|
| | 2009 | 2008 | 31, |
| | | | 2008 |
| Nonaccrual loans | | | |
| Commercial and commercial real estate | \$ 65,801 | \$ 59,915 | \$ 52,394 |
| Residential real estate | 5,458 | 5,890 | 5,474 |
| Consumer | 6,147 | 4,418 | 6,173 |
| Total nonaccrual loans | 77,406 | 70,223 | 64,041 |
| Renegotiated loans | | | |
| Past due loans (90 days or more and still accruing) | | | |
| Commercial and commercial real estate | 1,303 | 958 | 991 |
| Residential real estate | 13 | 121 | |
| Consumer | 1,119 | 468 | 1,917 |
| Total past due loans | 2,435 | 1,547 | 2,908 |
| Foreclosed properties | 6,864 | 2,320 | 2,934 |
| Total under-performing assets | \$ 86,705 | \$ 74,090 | \$ 69,883 |
| Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans) | \$ 199,750 | \$ 153,732 | \$ 180,118 |
| Other classified assets | 96,546 | | 34,543 |
| Criticized loans | 86,587 | 103,815 | 124,855 |
| Total criticized and classified assets | \$ 382,883 | \$ 257,547 | \$ 339,516 |
| Asset Quality Ratios: | | | |
| Non-performing loans/total loans (1) (2) | 1.67% | 1.50% | 1.34% |
| Under-performing assets/total loans and foreclosed properties (1) | 1.87 | 1.58 | 1.46 |
| Under-performing assets/total assets | 1.04 | 0.96 | 0.89 |
| Allowance for loan losses/under-performing assets | 82.78 | 97.52 | 96.00 |

- (1) Loans include residential loans held for sale.
- (2) Non-performing loans include nonaccrual and renegotiated loans.

Loan charge-offs, net of recoveries, totaled \$12.6 million for the three months ended March 31, 2009, an increase of \$6.5 million from the three months ended March 31, 2008. Included in the first quarter of 2009 and 2008 are \$1.2 million and \$3.0 million, respectively, of charge-offs associated with the misconduct of a former loan officer in the Indianapolis market. Annualized, net charge-offs to average loans were 1.07% for the three months ended March 31, 2009, as compared to 0.52% for the three months ended March 31, 2008.

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Under-performing assets totaled \$86.7 million at March 31, 2009, an increase of \$12.6 million compared to \$74.1 million at March 31, 2008, and an increase of \$16.8 million compared to \$69.9 million at December 31, 2008. As a percent of total loans and foreclosed properties, under-performing assets at March 31, 2009, were 1.87%, an increase from the March 31, 2008 ratio of 1.58% and an increase from the December 31, 2008 ratio of 1.46%. Nonaccrual loans were \$77.4 million at March 31, 2009, compared to \$70.2 million at March 31, 2008, and \$64.0 million at December 31, 2008. Included in nonaccrual loans at March 31, 2009, is \$6.8 million of loans associated with the misconduct of a former loan officer in the Indianapolis market. Management will continue its efforts to reduce the level of under-performing loans and will consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses. Total classified and criticized assets were \$382.9 million at March 31, 2009, an increase of \$125.3 million from March 31, 2008, and an increase of \$43.4 million from December 31, 2008. Other classified assets include \$96.5 million and \$34.5 million of investment securities that fell below investment grade rating at March 31, 2009 and December 31, 2008, respectively.

Allowance for Loan Losses and Reserve for Unfunded Commitments

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The determination of the allowance is based upon the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events and regulatory guidance. At March 31, 2009, the allowance for loan losses was \$71.8 million, a decrease of \$0.5 million compared to \$72.3 million at March 31, 2008, and an increase of \$4.7 million compared to \$67.1 million at December 31, 2008. As a percentage of total loans excluding loans held for sale, the allowance was 1.55% at March 31, 2009, compared to 1.54% at March 31, 2008, and 1.41% at December 31, 2008. The provision for loan losses for the three months ended March 31, 2009, amounted to \$17.3 million compared to \$21.9 million for the three months ended March 31, 2008. The decrease in the provision year over year is primarily due to the \$17.0 million of expense recorded in the first quarter of 2008 associated with the misconduct of a former loan officer in the Indianapolis market. We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. In accordance with generally accepted accounting principles, the \$3.7 million reserve for unfunded loan commitments is classified as a liability account on the balance sheet. The reserve for unfunded loan commitments was \$3.5 million at December 31, 2008.

Market Risk

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

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

We use two modeling techniques to quantify the impact of changing interest rates on the Company, Net Interest Income at Risk and Economic Value of Equity. Net Interest Income at Risk is used by management and the Board of

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

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Old National's Board of Directors, through its Funds Management Committee, monitors our interest rate risk. Policy guidelines, in addition to March 31, 2009 and 2008 results are as follows:

Net Interest Income 12 Month Policies

| | Interest Rate Change in Basis Points (bp) | | | | | |
|-------------|--|------------------|------------------|------------------|------------------|--------------------|
| | Down 300 | Down 200 | Down 100 | Up 100 | Up 200 | Up 300 |
| Green Zone | -12.00% | -6.50% | -3.00% | -3.00% | -6.50% | -12.00% |
| | -12.00% to -15.00% | -6.50% to -8.50% | -3.00% to -4.00% | -3.00% to -4.00% | -6.50% to -8.50% | -12.00% to -15.00% |
| Yellow Zone | | | | | | |
| Red Zone | -15.00% | -8.50% | -4.00% | -4.00% | -8.50% | -15.00% |
| 3/31/2009 | N/A | N/A | N/A | 3.37% | 4.01% | 3.03% |
| 3/31/2008 | N/A | -0.91% | 1.16% | -0.84% | -1.91% | -2.83% |

Net Interest Income 24 Month Cumulative Policies

| | Interest Rate Change in Basis Points (bp) | | | | | |
|-------------|--|------------------|------------------|------------------|------------------|--------------------|
| | Down 300 | Down 200 | Down 100 | Up 100 | Up 200 | Up 300 |
| Green Zone | -12.00% | -6.50% | -3.00% | -3.00% | -6.50% | -12.00% |
| | -12.00% to -15.00% | -6.50% to -8.50% | -3.00% to -4.00% | -3.00% to -4.00% | -6.50% to -8.50% | -12.00% to -15.00% |
| Yellow Zone | | | | | | |
| Red Zone | -15.00% | -8.50% | -4.00% | -4.00% | -8.50% | -15.00% |
| 3/31/2009 | N/A | N/A | N/A | 4.47% | 5.34% | 4.40% |
| 3/31/2008 | N/A | -4.57% | -0.42% | 0.29% | 0.19% | 0.22% |

Economic Value of Equity Policies

| | Interest Rate Change in Basis Points (bp) | | | | | |
|-------------|--|--------------------|------------------|------------------|--------------------|--------------------|
| | Down 300 | Down 200 | Down 100 | Up 100 | Up 200 | Up 300 |
| Green Zone | -22.00% | -12.00% | -5.00% | -5.00% | -12.00% | -22.00% |
| | -22.00% to -30.00% | -12.00% to -17.00% | -5.00% to -7.50% | -5.00% to -7.50% | -12.00% to -17.00% | -22.00% to -30.00% |
| Yellow Zone | | | | | | |
| Red Zone | -30.00% | -17.00% | -7.50% | -7.50% | -17.00% | -30.00% |
| 3/31/2009 | N/A | N/A | N/A | -4.74% | -15.38% | -25.43% |
| 3/31/2008 | N/A | -15.15% | -2.89% | -1.32% | -5.34% | -10.46% |

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

Modeling for the Down 100 Basis Points, Down 200 Basis Points, and Down 300 Basis Points scenarios for both the Net Interest Income at Risk and Economic Value of Equity are not applicable in the current rate environment because

the base scenarios floor is at Zero before absorbing the full 100, 200, and 300 basis point drops, respectively. At March 31, 2009, modeling indicated Old National's Net Interest Income at Risk values were positive for Up 100, Up 200 and Up 300 scenarios for both the 12-month and 24-month Net Interest Income at Risk.

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At March 31, 2009, modeling indicated that Old National was within the yellow zone policy limit for the Up 200 and Up 300 Economic Value of Equity scenarios. Management has agreed to monitor these scenarios closely. The Up 100 Economic Value of Equity Scenarios fell within the Old National's green zone policy limit, which is considered normal and acceptable for Economic Value of Equity scenarios.

We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. Our derivatives had an estimated fair value gain of \$1.3 million at March 31, 2009, compared to an estimated fair value loss of \$0.6 million at December 31, 2008. In addition, the notional amount of derivatives increased by \$135.3 million from 2008. See Note 15 to the consolidated financial statements for further discussion of derivative financial instruments.

Liquidity Risk

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

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

Our ability to acquire funding at competitive prices is influenced by rating agencies' views of our credit quality, liquidity, capital and earnings. All of the rating agencies place us in an investment grade that indicates a low risk of default. Standard and Poor's and Dominion Bond Rating Services have each issued a stable outlook in conjunction with their ratings as of December 31, 2008. On October 13, 2008, Moody's Investor Service changed Old National Bancorp's outlook to negative, reflecting concern over Old National's high dividend payments and corresponding impact to holding company liquidity. As of December 12, 2008, Fitch Rating Services changed their long-term outlook rating from negative to stable for both Old National Bancorp (the Parent Company) and Old National Bank (the Bank Subsidiary). The senior debt ratings of Old National Bancorp (the Parent Company) and Old National Bank (the Bank Subsidiary) at March 31, 2009, are shown in the following table.

SENIOR DEBT RATINGS

| | Standard and Poor's | | Moody's Investor Service | | Fitch, Inc. | | Dominion Bond Rating Svc. | |
|-------------------------|------------------------|---------------|-----------------------------|---------------|--------------|---------------|------------------------------|---------------|
| | Long term | Short term | Long term | Short term | Long term | Short term | Long term | Short term |
| Old National Bancorp | BBB | N/A | A2 | N/A | BBB | F2 | BBB (high) | R-2 (high) |
| Old National Bank | BBB+ | A2 | A1 | P-1 | BBB+ | F2 | A (low) | R-1 (low) |

N/A = not applicable

As of March 31, 2009, the Bank Subsidiary had the capacity to borrow \$846.3 million from the Federal Reserve Bank's discount window and its Term Auction Facility. The Bank Subsidiary is also a member of the Federal Home Loan Bank (FHLB) of Indianapolis, which provides a source of funding through FHLB advances. The Bank Subsidiary maintains relationships in capital markets with brokers and dealers to issue certificates of deposits and short-term and medium-term bank notes as well.

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The Parent Company has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. The Parent Company obtains funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt markets. At March 31, 2009, the Parent Company's other borrowings outstanding remained unchanged at \$157.2 million compared with December 31, 2008. There is no Parent Company debt scheduled to mature within the next 12 months. Subsequent to the quarter ending March 31, 2009, Old National instituted a \$30 million line of credit with no outstanding balance. Old National agreed to participate in the U.S. Treasury Department Capital Purchase Program for healthy financial institutions during fourth quarter 2008. Under the program, Old National sold preferred, non-voting shares of its stock and warrants valued at \$100 million to the U.S. Treasury Department. As of March 31, 2009, Old National repurchased all of the \$100 million of non-voting preferred shares from the Treasury Department. Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. At December 31, 2006, the Bank Subsidiary had received regulatory approval to declare a dividend up to \$76 million in the first quarter of 2007. The Parent Company used the cash obtained from the dividend to fund its purchase of St. Joseph Capital Corporation during the first quarter of 2007. As a result of this special dividend, the Bank Subsidiary requires approval of regulatory authority for the payment of dividends to the Parent Company. Such approval was obtained for the payment of dividends at March 31, 2009.

OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of our customers. Our banking affiliates have entered into various agreements to extend credit, including loan commitments of \$1.137 billion and standby letters of credit of \$109.7 million at March 31, 2009. At March 31, 2009, approximately \$1.073 billion of the loan commitments had fixed rates and \$64 million had floating rates, with the fixed rates ranging from 1% to 21%. At December 31, 2008, loan commitments were \$1.124 billion and standby letters of credit were \$108.4 million. The term of these off-balance sheet arrangements is typically one year or less.

During the second quarter of 2007, we entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of \$9.4 million at March 31, 2009.

CONTRACTUAL OBLIGATIONS

The following table presents our significant fixed and determinable contractual obligations at March 31, 2009:

CONTRACTUAL OBLIGATIONS

| (dollars in thousands) | Payments Due In | | | | Total |
|--|-------------------------|-----------------------|------------------------|--------------------|--------------|
| | One Year or Less (A) | One to Three Years | Three to Five Years | Over Five Years | |
| Deposits without stated maturity | \$ 3,738,491 | \$ | \$ | \$ | \$ 3,738,491 |
| IRAs, consumer and brokered certificates of deposit | 913,133 | 848,665 | 246,389 | 108,060 | 2,116,247 |
| Short-term borrowings | 827,092 | | | | 827,092 |
| Other borrowings | 2,030 | 374,089 | 257,093 | 176,746 | 809,958 |
| Operating leases | 24,073 | 62,071 | 58,649 | 319,055 | 463,848 |

(A) For the remaining nine months of fiscal 2009.

We rent certain premises and equipment under operating leases. See Note 16 to the consolidated financial statements for additional information on long-term lease arrangements.

We are party to various derivative contracts as a means to manage the balance sheet and our related exposure to changes in interest rates, to manage our residential real estate loan origination and sale activity, and to provide derivative contracts to our clients. Since the derivative liabilities recorded on the balance sheet change frequently and do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 15 to the consolidated financial statements.

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In the normal course of business, various legal actions and proceedings are pending against us and our affiliates which are incidental to the business in which they are engaged. Further discussion of contingent liabilities is included in Note 16 to the consolidated financial statements.

In addition, liabilities recorded under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48) are not included in the table because the amount and timing of any cash payments cannot be reasonably estimated. Further discussion of income taxes and liabilities recorded under FIN 48 is included in Note 14 to the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008. Certain accounting policies require management to use significant judgment and estimates, which can have a material impact on the carrying value of certain assets and liabilities. We consider these policies to be critical accounting policies. The judgment and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from these judgments and estimates which could have a material affect on our financial condition and results of operations.

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

Goodwill and Intangibles

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

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

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

Allowance for Loan Losses

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

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The allowance is increased through a provision charged to operating expense. Uncollectible loans are charged-off through the allowance. Recoveries of loans previously charged-off are added to the allowance. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. Our policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status. A loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. We monitor the quality of our loan portfolio on an on-going basis and use a combination of detailed credit assessments by relationship managers and credit officers, historic loss trends, and economic and business environment factors in determining the allowance for loan losses. We record provisions for loan losses based on current loans outstanding, grade changes, mix of loans and expected losses. A detailed loan loss evaluation on an individual loan basis for our highest risk loans is performed quarterly. Management follows the progress of the economy and how it might affect our borrowers in both the near and the intermediate term. We have a formalized and disciplined independent loan review program to evaluate loan administration, credit quality and compliance with corporate loan standards. This program includes periodic reviews and regular reviews of problem loan reports, delinquencies and charge-offs.

Judgments and Uncertainties. We use migration analysis as a tool to determine the adequacy of the allowance for loan losses for non-retail loans that are not impaired. Migration analysis is a statistical technique that attempts to estimate probable losses for existing pools of loans by matching actual losses incurred on loans back to their origination.

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

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

Management's analysis of probable losses in the portfolio at March 31, 2009, resulted in a range for allowance for loan losses of \$10.7 million with the potential effect to net income ranging from a decrease of \$1.4 million to an increase of \$5.6 million. These sensitivities are hypothetical and are not intended to represent actual results.

Derivative Financial Instruments

Description. As part of our overall interest rate risk management, we use derivative instruments to reduce exposure to changes in interest rates and market prices for financial instruments. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items. To the extent hedging relationships are found to be effective, as determined by SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income.

Management believes hedge effectiveness is evaluated properly in preparation of the financial statements. All of the derivative financial instruments we use have an active market and indications of fair value can be readily obtained. We are not using the short-cut method of accounting for any fair value derivatives.

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

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

Income Taxes

Description. We are subject to the income tax laws of the U.S., its states and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate. On January 1, 2007, we adopted FIN 48 to account for uncertain tax positions. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 12 to the Consolidated Financial Statements for a further description of our provision and related income tax assets and liabilities.

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

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

Valuation of Securities

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

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

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

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

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

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

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

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

Quarterly, securities are evaluated for other-than-temporary-impairment in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and Emerging Issues Task Force No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets* and FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. An impairment that is an other-than-temporary-impairment is a decline in the fair value of an investment below its amortized cost attributable to factors that indicate the decline will not be recovered over the anticipated holding period of the investment.

Other-than-temporary-impairments result in reducing the security's carrying value by the amount of credit loss. The credit component of the other-than-temporary-impairment loss is realized through the statement of income and the remainder of the loss remains in other comprehensive income.

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

Effect if Actual Results Differ From Assumptions. An impairment that is an other than temporary impairment is a decline in the fair value of an investment below its amortized cost attributable to factors that indicate the decline will not be recovered over the anticipated holding period of the investment. The credit component of the other-than-temporary-impairment reduces the security's carrying value, resulting in a revised yield.

FORWARD-LOOKING STATEMENTS

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

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

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

economic conditions generally and in the financial services industry;

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

our ability to achieve loan and deposit growth;

volatility and direction of market interest rates;

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

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our ability to execute our business plan;

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

changes in the securities markets; and

changes in fiscal, monetary and tax policies.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Management's Discussion and Analysis of Financial Condition and Results of Operations-Market Risk and Liquidity Risk.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures. Old National's principal executive officer and principal financial officer have concluded that Old National's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this Form 10-Q, are effective at the reasonable assurance level as discussed below to ensure that information required to be disclosed by Old National in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to Old National's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Controls. Management, including the principal executive officer and principal financial officer, does not expect that Old National's disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be only reasonable assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting. There were no changes in Old National's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, Old National's internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1A. RISK FACTORS**

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

Risks Related to Old National's Business

The current banking crisis, including the Enactment of the Emergency Economic Stabilization Act of 2008 (EESA) and the American Recovery and Reinvestment Act of 2009 (ARRA), may significantly affect our financial condition, results of operations, liquidity or stock price.

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers seemingly without regard to those issuers' underlying financial strength.

EESA, which established the Troubled Asset Relief Program (TARP), was signed into law in October 2008. As part of TARP, the Treasury established the Capital Purchase Program (CPP) to provide up to \$700 billion of funding to eligible financial institutions through the purchase of capital stock and other financial instruments for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Then, on February 17, 2009, President Obama signed ARRA, as a sweeping economic recovery package intended to stimulate the economy and provide for broad infrastructure, energy, health, and education needs. There can be no assurance as to the actual impact that EESA or its programs, including the CPP, and ARRA or its programs, will have on the national economy or financial markets. The failure of these significant legislative measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common shares.

There have been numerous actions undertaken in connection with or following EESA and ARRA by the Federal Reserve Board, Congress, the Treasury, the FDIC, the SEC and others in efforts to address the current liquidity and credit crisis in the financial industry that followed the sub-prime mortgage market meltdown which began in 2007. These measures include homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. The purpose of these legislative and regulatory actions is to help stabilize the U.S. banking system. EESA, ARRA and the other regulatory initiatives described above may not have their desired effects. If the volatility in the markets continues and economic conditions fail to improve or worsen, our business, financial condition and results of operations could be materially and adversely affected.

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

Old National makes various assumptions and judgments about the collectibility of Old National's loan portfolio, including the creditworthiness of Old National's borrowers and the value of the real estate and other assets serving as collateral for the repayment of Old National's loans. Despite Old National's underwriting and monitoring practices, the effect of the declining economy could negatively impact the ability of Old National's borrowers to repay loans in a timely manner and could also negatively impact collateral values. As a result, Old National may experience significant loan losses that could have a material adverse effect on Old National's operating results. Since Old National must use assumptions regarding individual loans and the economy, Old National's current allowance for loan losses may not be sufficient to cover actual loan losses. Old National's assumptions may not anticipate the severity or duration of the current credit cycle and Old National may need to significantly increase Old National's provision for losses on loans if one or more of Old National's larger loans or credit relationships becomes delinquent or if Old National expands its commercial real estate and commercial lending. In addition, federal and state regulators periodically review Old National's allowance for loan losses and may require Old National to increase the provision for loan losses or recognize loan charge-offs. Material additions to Old National's allowance would materially decrease Old National's

net income. There can be no assurance that Old National's monitoring procedures and policies will reduce certain lending risks or that Old National's allowance for loan losses will be adequate to cover actual losses.

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

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

These loans also have greater credit risk than residential real estate for the following reasons:

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

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

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

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

Credit quality issues may broaden in these sectors during 2009 depending on the severity and duration of the declining economy and current credit cycle.

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

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

We face risks with respect to future expansion.

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

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

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

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

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

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our ability to finance an acquisition and possible dilution to our existing shareholders;
 the diversion of our management's attention to the negotiation of a transaction, and the integration of the operations and personnel of the combined businesses;
 entry into new markets where we lack experience;
 the introduction of new products and services into our business;
 the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and
 the risk of loss of key employees and customers.

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

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

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

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

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

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

Old National relies upon a variety of computing platforms and networks over the internet for the purposes of data processing, communication and information exchange. Despite the safeguards instituted by Old National, such systems are susceptible to a breach of security. In addition, Old National relies on the services of a variety of third-party vendors to meet Old National's data processing and communication needs. If confidential information is compromised, financial losses, costs and/or other damages could occur. Such costs and/or losses could materially affect Old National's earnings.

Fiduciary Activity Risk Factor

Old National Is Subject To Claims and Litigation Pertaining To Fiduciary Responsibility.

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

Table of Contents**Risks Related to the Banking Industry**

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

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

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers seemingly without regard to those issuers' underlying financial strength. The current market volatility could contribute to a further decline in the market value of certain security investments and other assets of Old National and if current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on results of operations, capital or financial position.

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

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

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

Old National operates in a highly regulated environment and is subject to extensive regulation, supervision and examination by the Office of Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (the Federal Reserve) and the State of Indiana. Applicable laws and regulations may change, and such changes may adversely affect Old National's business. Such regulation and supervision of the activities in which an institution may engage is primarily intended for the protection of the depositors and federal deposit insurance funds. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including but not limited to the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Any change in such regulation and oversight, whether in the form of restrictions on activities, regulatory policy, regulations, or legislation, including but not limited to changes in the regulations governing institutions, could have a material impact on Old National and its operations.

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Changes in technology could be costly.

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

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

We are subject to fraud and compliance risk in connection with the origination of loans. Fraud risk includes the intentional misstatement of information in property appraisals or other underwriting documentation provided to us by third parties. Compliance risk is the risk that loans are not originated in compliance with applicable laws and regulations and our standards. There can be no assurance that we can prevent or detect acts of fraud or violation of law or our compliance standards by the third parties that we deal with. Repeated incidences of fraud or compliance failures adversely impact the performance of our loan portfolio.

Risks Related to Old National's Stock

We may not be able to pay dividends in the future in accordance with past practice.

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

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

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

- announcements of developments related to Old National's business;
- fluctuations in Old National's results of operations;
- sales or purchases of substantial amounts of Old National's securities in the marketplace;
- general conditions in Old National's banking niche or the worldwide economy;
- a shortfall or excess in revenues or earnings compared to securities analysts' expectations;
- changes in analysts' recommendations or projections; and

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

Old National's charter documents and federal regulations may inhibit a takeover, prevent a transaction that may favor or otherwise limit Old National's growth opportunities, which could cause the market price of Old National's common stock to decline.

Certain provisions of Old National's charter documents and federal regulations could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of Old National. In addition, Old National must obtain approval from regulatory authorities before acquiring control of any other company.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**
(c) ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------|---|---------------------------------------|--|---|
| | | | Purchased as Part of Publicly Announced Plans or Programs | |
| 01/01/09 - 01/31/09 | | \$ | | |
| 02/01/09 - 02/29/09 | 27,326 | 12.70 | 27,326 | |
| 03/01/09 - 03/31/09 | | | | |
| Quarter-to-date 03/31/09 | 27,326 | \$ 12.70 | 27,326 | |

The Company's stock repurchase program ended on December 31, 2008. Shares repurchased in the first quarter of 2009 relate to our employee compensation plans.

ITEM 5. OTHER INFORMATION

(a) On January 29, 2009, the Board of Directors of Old National Bancorp (the "Company"), upon recommendation of the Compensation and Management Development Committee of the Board (the "Compensation Committee") took several actions with respect to incentive compensation for the Company's Chief Executive Officer, Chief Financial Officer and other executive officers named in the compensation discussion included in the Company's proxy statement for its annual meeting held in 2008 (collectively, the "Named Executive Officers") and other executive officers. The actions taken include the establishment of performance goals and potential awards for fiscal year 2009 under the Company's Short-Term Incentive Compensation Plan for Key Executives, and the grant of long-term incentive awards under the Company's 2008 Incentive Compensation Plan in the form of performance shares, service-based restricted stock and non-qualified stock options.

Short-Term Incentive Compensation Plan

On January 29, 2009, the Board of Directors of the Company, upon recommendation of the Compensation Committee, established the performance goals and potential awards for the Named Executive Officers with respect to fiscal year 2009 under the Company's Short-Term Incentive Compensation Plan for Key Executives ("STIP"). For 2009, the incentive bonus paid under the STIP will be based on the level of achievement of the Company's earnings per share. Target awards for executive officers range from 40% to 75% of base salary, and maximum awards range from 80% to 150% of base salary.

Long-Term Incentive Awards

On January 29, 2009, the Board of Directors of the Company, upon recommendation of the Compensation Committee, approved the grant of performance shares, service-based restricted stock awards and non-qualified stock options to each of the Named Executive Officers pursuant to the Company's 2008 Incentive Compensation Plan.

There were two categories of performance shares granted to Named Executive Officers. The first set of performance shares, measured by internal performance measures, are payable to the Named Executive Officers based on the collective results of the following three performance factors from January 1, 2009 through December 31, 2011 (the "Performance Period"): Earnings Per Share Growth; Total Revenue Growth; and Net Charge-Off Ratio. The other category of performance shares, measured by relative performance measures, will be payable to the Named Executive Officers based on the collective results of the following four relative performance factors during the Performance

Period as measured against a comparator Peer group: EPS Diluted - Excluding Extraordinary Items Growth (as defined below), Total Revenue Growth, Net Charge-Off Ratio and Total Shareholder Return. EPS Diluted Excluding Extraordinary Items represents earnings per share after allowing for the conversion of convertible senior stock and debt, and the exercise of warrants, options outstanding, and agreements for issuance of common shares upon satisfaction of certain conditions. EPS Diluted Excluding Extraordinary Items is calculated in accordance with Accounting Principles Board Opinion No. 15 and excludes extraordinary items and discontinued operations. For the performance shares that are based on internal performance measures, Total Revenue Growth is defined as the sum of fully taxable-equivalent net interest income and total non-interest income recognized in a period after the quarter ending December 31, 2008. For the performance shares that are based on relative performance measures, Total Revenue Growth is defined as the compound annual growth rate of increase of the sum of net interest income and non-interest income (as reflected in year-end financial statements), disregarding, however, extraordinary items, as determined by GAAP, from December 31, 2008, through December 31, 2011.

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The value of the performance shares that is presented in the table below is the value that will be earned if the Company achieves the targeted levels. If the Company performs in relation to the financial factors at levels that exceed the targeted levels, the value of the performance shares presented in the table below could be greater than that presented, but not more than 200% of such amounts.

The service-based restricted stock awards were granted to the Named Executive Officers, with the exception of the Chief Executive Officer. These awards will vest annually in three approximately equal installments (33.3%, 33.3%, 33.4%) over a three-year period ending February 1, 2012, subject to the continued employment of the Named Executive Officer.

The non-qualified stock options were granted at an exercise price of \$13.31 (the closing price of the Company's common stock on the date of the grant) and will vest annually in three approximately equal installments (33.3%, 33.3%, 33.4%) over a three-year period ending February 1, 2012.

The following table set forth information regarding the individual grants of restricted stock and stock options for each of the Named Executive Officers:

| Named Executive Officer | Value of Performance- Shares (1) (2) | Value of Service-Based Restricted Stock (1) | Number of Stock Options |
|-------------------------|---|--|-------------------------------|
| Robert G. Jones | \$ 409,948 | | 49,000 |
| Barbara A. Murphy | \$ 62,557 | \$ 62,557 | 15,000 |
| Christopher A. Wolking | \$ 62,557 | \$ 62,557 | 15,000 |
| Annette W. Hudgions | \$ 29,282 | \$ 29,282 | 7,000 |
| Daryl D. Moore | \$ 38,599 | \$ 38,599 | 9,000 |

(1) Based on the closing price of the Company's stock on the date of grant \$13.31.

(2) As discussed above, the values of performance shares are presented assuming the Company achieves targeted levels of financial performance established by the awards; if the Company performs better than established by the targeted

measures, then additional shares could be issued under such awards, but not more than 200% of the values set forth above.

- (b) There have been no material changes in the procedure by which security holders recommend nominees to the Company's board of directors.

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ITEM 6. EXHIBITS

| Exhibit No. | Description |
|--------------------|---|
| 2.1 | Purchase and Assumption Agreement dated November 24, 2008 by and among Old National Bancorp, Old National Bank and RBS Citizens, National Association (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 25, 2008). |
| 3.1 | Articles of Incorporation of Old National, amended December 10, 2008 (incorporated by reference to Exhibit 3.1 of Old National's Annual Report on Form 10-K for the year ended December 31, 2008). |
| 3.2 | By-Laws of Old National, amended April 26, 2007 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 30, 2007). |
| 4.1 | Senior Indenture between Old National and The Bank of New York Trust Company (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One, NA)), as trustee, dated as of July 23, 1997 (incorporated by reference to Exhibit 4.3 to Old National's Registration Statement on Form S-3, Registration No. 333-118374, filed with the Securities and Exchange Commission on December 2, 2004). |
| 4.2 | Form of Indenture between Old National and J.P. Morgan Trust Company, National Association (as successor to Bank One, NA), as trustee (incorporated by reference to Exhibit 4.1 to Old National's Registration Statement on Form S-3, Registration No. 333-87573, filed with the Securities and Exchange Commission on September 22, 1999). |
| 4.3 | Rights Agreement, dated March 1, 1990, as amended on February 29, 2000, between Old National Bancorp and Old National Bank, as trustee (incorporated by reference to Old National's Form 8-A, dated March 1, 2000). |
| 4.4 | First Indenture Supplement dated as of May 20, 2005, between Old National and J.P. Morgan Trust Company, as trustee, providing for the issuance of its 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005). |
| 4.5 | Form of 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005). |
| 4.6 | Form of Certificate for the Old National Bancorp Fixed Rate Cumulative Perpetual Preferred Stock, Series T (incorporated by reference to Exhibit 4.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008). |
| 4.7 | Warrant for the Purchase of shares of Old National Bancorp Common Stock (incorporated by reference to Exhibit 4.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008). |

- 10.1 Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(a) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
- 10.2 Second Amendment to the Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(b) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*

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| Exhibit No. | Description |
|--------------------|--|
| 10.3 | 2005 Directors Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(c) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.4 | Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(d) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.5 | Second Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(e) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.6 | Third Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(f) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.7 | 2005 Executive Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(g) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).* |
| 10.8 | Summary of Old National Bancorp's Outside Director Compensation Program (incorporated by reference to Old National's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).* |
| 10.9 | Old National Bancorp Short-Term Incentive Compensation Plan (incorporated by reference to Appendix II of Old National's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 16, 2005).* |
| 10.10 | Old National Bancorp 1999 Equity Incentive Plan (incorporated by reference to Old National's Form S-8 filed on July 20, 2001).* |
| 10.11 | First Amendment to the Old National Bancorp 1999 Equity Incentive Plan (incorporated by reference to Exhibit 10(f) of Old National's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).* |
| 10.12 | Form of 2005 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates, (incorporated by reference to Exhibit 10(r) of Old National's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005). * |
| 10.13 | Form of Executive Stock Option Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(h) of Old National's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).* |

- 10.14 Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National's Registration Statement on Form S-3, Registration No. 333-120545 filed with the Securities and Exchange Commission on November 16, 2004).
- 10.15 Form of 2006 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).*

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| Exhibit No. | Description |
|--------------------|---|
| 10.16 | Form of 2006 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).* |
| 10.17 | Form of 2006 Non-qualified Stock Option Agreement (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).* |
| 10.18 | Form of 2007 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(w) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).* |
| 10.19 | Form of 2007 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(x) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).* |
| 10.20 | Form of 2007 Non-qualified Stock Option Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(y) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).* |
| 10.21 | Lease Agreement, dated December 20, 2006 between ONB One Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(aa) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006). |
| 10.22 | Lease Agreement, dated December 20, 2006 between ONB 123 Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ab) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006). |
| 10.23 | Lease Agreement, dated December 20, 2006 between ONB 4 th Street Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ac) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006). |
| 10.24 | Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, and Old National Bank (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007). |
| 10.25 | Lease Supplement No. 1 dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, Old National Bank and ONB Insurance Group, Inc. (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007). |
| 10.26 | Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #2, LLC, and Old National Bank (incorporated by reference to Exhibit 99.4 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007). |

- 10.27 Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #3, LLC, and Old National Bank (incorporated by reference to Exhibit 99.5 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
- 10.28 Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #4, LLC, and Old National Bank (incorporated by reference to Exhibit 99.6 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).

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| Exhibit No. | Description |
|--------------------|---|
| 10.29 | Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #5, LLC, and Old National Bank (incorporated by reference to Exhibit 99.7 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007). |
| 10.30 | Form of Lease Agreement dated October 19, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2007). |
| 10.31 | Form of Lease Agreement dated December 27, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (as incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 31, 2007). |
| 10.32 | Form of 2008 Non-qualified Stock Option Award Agreement (incorporated by reference to Exhibit 99.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).* |
| 10.33 | Form of 2008 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).* |
| 10.34 | Form of 2008 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).* |
| 10.35 | Form of Employment Agreement for Robert G. Jones, Daryl D. Moore, Barbara A. Murphy and Christopher A. Wolking (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 21, 2008).* |
| 10.36 | Severance/Change in Control Agreement between Old National and Annette W. Hudgions (incorporated by reference to Exhibit 10.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 21, 2008).* |
| 10.37 | Old National Bancorp 2008 Incentive Compensation Plan (incorporated by reference to Appendix II of Old National's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 27, 2008).* |
| 10.38 | Old National Bancorp Code of Conduct (incorporated by reference to Exhibit 14.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 29, 2008). |
| 10.39 | |

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Letter Agreement dated December 12, 2008 by and between Old National Bancorp and the United States Department of Treasury which includes the Securities Purchase Agreement Standard Terms (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008).

- 10.40 Form of Senior Executive Officer Letter Agreement (incorporated by reference to Exhibit 10.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008).
- 10.41 Form of Waiver (incorporated by reference to Exhibit 10.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2008).
- 10.42 Form of 2009 Performance Share Award Agreement – Internal Performance Measures between Old National and certain key associates (incorporated by reference to Old National's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).*

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| Exhibit No. | Description |
|--------------------|--|
| 10.43 | Form of 2009 Performance Share Award Agreement – Relative Performance Measures between Old National and certain key associates (incorporated by reference to Old National’s Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).* |
| 10.44 | Form of 2009 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Old National’s Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).* |
| 10.45 | Form of 2009 Executive Stock Option Agreement between Old National and certain key associates (incorporated by reference to Old National’s Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).* |
| 10.46 | Purchase and Assumption Agreement dated November 24, 2008 by and among Old National Bank and RBS Citizens, National Association (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National’s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2009). |
| 10.47 | Preferred Stock Repurchase Agreement dated March 31, 2009 by and between Old National Bancorp and the United States Department of Treasury (incorporated by reference to Exhibit 10.1 of Old National’s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 31, 2009). |
| 10.48 | Form of Termination of Senior Executive Officer Letter Agreement (incorporated by reference to Exhibit 10.2 of Old National’s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 31, 2009). |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OLD NATIONAL BANCORP

(Registrant)

By: /s/ Christopher A. Wolking

Christopher A. Wolking
Senior Executive Vice President and Chief Financial Officer
Duly Authorized Officer and Principal Financial Officer

Date: May 1, 2009

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EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|---|
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |