OLD NATIONAL BANCORP /IN/
Form 10-Q
August 04, 2009

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2009

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

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

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

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

Yes þ No o

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock. The Registrant has one class of common stock (no par value) with 66,433,000 shares outstanding at June 30, 2009.

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OLD NATIONAL BANCORP
CONSOLIDATED BALANCE SHEETS

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

Noninterest-bearing demand	**$ 1,045,568**	$ 888,578	$ 858,585
Interest-bearing:			
NOW	**1,297,215**	1,292,574	1,322,684
Savings	**928,879**	874,602	900,569
Money market	**451,985**	420,821	483,154
Time (including $0, $49,309 and $49,775, respectively, at fair value)	**2,074,861**	1,945,712	1,807,425
Total deposits	**5,798,508**	5,422,287	5,372,417
Short-term borrowings	**542,418**	649,623	575,280
Other borrowings	**810,305**	834,867	783,396
Accrued expenses and other liabilities	**226,355**	236,248	221,678
Total liabilities	**7,377,586**	7,143,025	6,952,771
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, $1 stated value, 150,000 shares authorized, 66,433, 66,321 and 66,206 shares issued and outstanding, respectively	**66,433**	66,321	66,206
Capital surplus	**570,763**	569,875	565,379
Retained earnings	**46,060**	50,815	57,824
Accumulated other comprehensive loss, net of tax	**(48,667)**	(53,504)	(40,394)
Total shareholders equity	**634,589**	730,865	649,015
Total liabilities and shareholders equity	**$ 8,012,175**	$ 7,873,890	$ 7,601,786

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF INCOME (unaudited)

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

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

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

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

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

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

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

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Six Months Ended June 30, 2009	2008
Cash Flows From Operating Activities		
Net income	**$ 19,040**	$ 38,815
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**4,287**	2,979
Amortization and impairment of other intangible assets	**2,666**	2,466
Net discount accretion on investment securities	**(71)**	(792)
Restricted stock expense	**614**	1,548
Stock option expense	**182**	208
Provision for loan losses	**29,268**	27,605
Net securities gains	**(15,872)**	(6,580)
Impairment on available-for-sale securities	**10,255**	
Gain on sale leasebacks	**(3,057)**	(3,164)
(Gain) loss on derivatives	**(999)**	973
Net gains on sales and write-downs of loans and other assets	**(1,325)**	(1,427)
(Gain) loss on extinguishment of debt	**247**	(254)
Increase in cash surrender value of company owned life insurance	**(1,111)**	(5,182)
Residential real estate loans originated for sale	**(153,802)**	(95,490)
Proceeds from sale of residential real estate loans	**147,558**	93,404
(Increase) decrease in interest receivable	**(20)**	4,341
(Increase) decrease in other assets	**8,729**	(20,048)
Increase (decrease) in accrued expenses and other liabilities	**(6,699)**	920
Total adjustments	**20,850**	1,507
Net cash flows provided by operating activities	**39,890**	40,322
Cash Flows From Investing Activities		
Cash and cash equivalents of acquired banking branches, net	**389,917**	
Purchases of investment securities available-for-sale	**(1,145,874)**	(604,750)
Purchase of loans	**(8,024)**	
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**394,193**	635,909
Proceeds from sales of investment securities available-for-sale	**415,092**	198,064
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**14,925**	14,718
Proceeds from sale of loans	**2,000**	2,251
Net principal collected from (loans made to) customers	**224,291**	(64,563)
Proceeds from sale of premises and equipment and other assets	**18**	6,973
Proceeds from sale leaseback of real estate	**1,646**	4,542
Purchases of premises and equipment	**(8,179)**	(5,019)
Net cash flows provided by (used in) investing activities	**280,005**	188,125

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

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

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

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, goodwill and intangibles, derivative financial instruments, income taxes and valuation of securities are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of June 30, 2009 and 2008, and December 31, 2008, and the results of its operations for the three and six months ended June 30, 2009 and 2008. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National s Annual Report for the year ended December 31, 2008.

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

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

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

SFAS No. 166 In June 2009, the FASB issued Statement No. 166 *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*. SFAS No. 166 amends SFAS No. 140 and removes the concept of a qualifying special-purpose entity and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. The new standard will become effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting SFAS No. 166 on the consolidated financial statements.

SFAS No. 167 In June 2009, the FASB issued Statement No. 167 *Amendments to FASB Interpretation No. 46(R)*. SFAS No. 167 amends tests under Interpretation No. 46(R) for variable interest entities to determine whether a variable interest entity must be consolidated. SFAS No. 167 requires an entity to perform an analysis to determine whether an entity s variable interest or interests give it a controlling financial interest in a variable interest entity. This statement requires ongoing reassessments of whether an entity is the primary beneficiary of a variable interest entity and enhanced disclosures that provide more transparent information about an entity s involvement with a variable interest entity. The new standard will become effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting SFAS No. 167 on the consolidated financial statements.

SFAS No. 168 In June 2009, the FASB issued Statement No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 168 replaces SFAS No. 162 and establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Rules and interpretative releases of the Securities and Exchange Commission under federal securities laws are also sources of authoritative GAAP for SEC registrants. The new standard becomes effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this statement is not expected to have a material impact on the Company s consolidated financial position or results of operations.

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

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

FSP No. FAS 115-2 and FAS 124-2 In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FASB staff position amends the other-than-temporary impairment guidance in U.S. generally accepted accounting principles for debt securities. If an entity determines that it has an other-than-temporary impairment on a security, it must recognize the credit loss on the security in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The staff position expands disclosures about other-than-temporary impairment and requires that the annual disclosures in FASB Statement No. 115 and FSP FAS 115-1 and FAS 124-1 be made for interim reporting periods. This FASB staff position becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this FASB staff position for the interim reporting period ending March 31, 2009. See Note 6 to the consolidated financial statements for the impact on the Company of adopting FSP No. FAS 115-2 and FAS 124-2.

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

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

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

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

EITF 08-7 In November 2008, the FASB Emerging Issues Task Force reached a consensus on Issue No. 08-7, *Accounting for Defensive Intangible Assets* (EITF 08-7). EITF 08-7 clarifies how to account for defensive intangible assets subsequent to initial measurement. EITF 08-7 applies to acquired intangible assets in situations in which an entity does not intend to actively use an asset but intends to hold the asset to prevent others from obtaining access to the asset. A defensive intangible asset should be accounted for as a separate unit of accounting with an expected life that reflects the consumption of the expected benefits related to that asset. The benefit from holding a defensive intangible asset is the direct and indirect cash flows resulting from the entity preventing others from using the asset. EITF 08-7 is effective for intangible assets acquired on or after January 1, 2009. The adoption of EITF 08-7 did not have a material impact on the Company s consolidated financial position or results of operations.

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

NOTE 3 ACQUISITION

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

NOTE 4 NET INCOME PER SHARE

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

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

Diluted Earnings Per Share	**$**	**0.15**	$	0.30

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

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

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

outstanding at June 30, 2009 and 2008, respectively, were not included in the computation of net income per diluted share for the second quarter and six months ended June 30, 2009 and 2008, respectively, because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

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

NOTE 5 COMPREHENSIVE INCOME

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

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

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

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

Other-than-temporary-impairment on available-for-sale securities realized in income		**10,255**								**10,255**
Reclassification of securities from available-for-sale to held-to-maturity		**1,033**								**1,033**
Balance at June 30, 2009	**$**	**(36,217)**	**$**	**(366)**	**$**	**(12,084)**	**$**	**(48,667)**
Balance at December 31, 2007	$	(3,704)	$	(655)	$	(6,986)	$	(11,345)
Other comprehensive income (loss)		(26,692)		87		(2,444)		(29,049)
Balance at June 30, 2008	$	(30,396)	$	(568)	$	(9,430)	$	(40,394)

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NOTE 6 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at June 30, 2009 and December 31, 2008 and the corresponding amounts of unrealized gains and losses therein:

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

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

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

The following table summarizes the investment securities with unrealized losses at June 30, 2009 and December 31, 2008 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2009						
Available-for-Sale						
U.S. Government-sponsored entities and agencies	$ 384,414	$ (7,076)	$	$	$ 384,414	$ (7,076)
Mortgage-backed securities Agency	183,170	(212)	2,467	(32)	185,637	(244)
Mortgage-backed securities Non-agency	1		172,800	(57,226)	172,801	(57,226)
States and political subdivisions	143,831	(5,344)	10,633	(764)	154,464	(6,108)
Pooled trust preferrred securities			16,353	(22,176)	16,353	(22,176)
Other securities	9,260	(4,618)	35,197	(1,617)	44,457	(6,235)
Total available-for-sale	$ 720,676	$ (17,250)	$ 237,450	$ (81,815)	$ 958,126	$ (99,065)
Held-to-Maturity						
U.S. Government-sponsored entities and agencies	$ 193,838	$ (4,341)	$	$	$ 193,838	$ (4,341)
Other securities			4,856	(466)	4,856	(466)
Total held-to-maturity	$ 193,838	$ (4,341)	$ 4,856	$ (466)	$ 198,694	$ (4,807)

December 31, 2008						
Available-for-Sale						
Mortgage-backed securities Agency	$ 66,047	$ (212)	$ 33,689	$ (378)	$ 99,736	$ (590)
Mortgage-backed securities Non-agency	83,360	(13,259)	116,192	(47,043)	199,552	(60,302)
States and political subdivisions	121,276	(5,072)			121,276	(5,072)
Pooled trust preferrred securities			19,668	(29,186)	19,668	(29,186)
Other securities	81,326	(7,793)	10,117	(1,676)	91,443	(9,469)
Total available-for-sale	$ 352,009	$ (26,336)	$ 179,666	$ (78,283)	$ 531,675	$ (104,619)
Held-to-Maturity						
Other securities	$	$	$ 8,315	$ (359)	$ 8,315	$ (359)
Total held-to-maturity	**$**	**$**	$ 8,315	$ (359)	$ 8,315	$ (359)

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

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

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

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

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

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As of June 30, 2009, Old National s security portfolio consisted of 1,157 securities, 276 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company s non-agency mortgage-backed and pooled trust preferred securities, as discussed below:

Non-agency Mortgage-backed Securities

At June 30, 2009, the Company s securities portfolio contained non-agency collateralized mortgage obligations with a market value of $189.8 million which had net unrealized losses of approximately $56.8 million. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of EITF 99-20. Four of these securities were downgraded during the quarter and as of June 30, 2009 eight of these securities were rated below investment grade with grades ranging from B3 to Caa1. These securities were evaluated to determine if the underlying collateral is expected to experience loss, resulting in a principal write-down of the notes. As part of the evaluation, a detailed analysis of deal-specific data was obtained from remittance reports provided by the trustee and data from the servicer. The collateral was broken down into several distinct buckets based on loan performance characteristics in order to apply different assumptions to each bucket. The most significant drivers affecting loan performance were examined including original loan-to-value (LTV), underlying property location and the current loan status. The loans in the current bucket were further divided based on their original LTV: a high-LTV and a low-LTV group to which different default curves and severity percentages were applied. The high-LTV group was further bifurcated into loans originated in high-risk states and all other states and a higher default-curve and severity percentages were applied to loans originated in the high-risk states. Different default curves and severity rates were applied to the remaining non-current collateral buckets. Using these collateral-specific assumptions, a model was built to project the future performance of the instrument. Based on this analysis of the underlying collateral as of June 30, 2009, Old National did not record any other-than-temporary impairment on these securities.

Pooled Trust Preferred Securities

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

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

	MM Community Funding IX	Reg Div Funding 2004		Reg Div

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

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NOTE 7 LOANS HELD FOR SALE

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

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

During the first six months of 2009, commercial and commercial real estate loans held for investment of $2.6 million were reclassified to loans held for sale at the lower of cost or fair value and sold for $2.0 million, resulting in a write-down on loans transferred to held for sale of $0.6 million, which was recorded as a reduction to the allowance for loan losses. During the first six months of 2008, commercial loans held for investment of $2.2 million were reclassified to loans held for sale at the lower of cost or fair value and sold, with no write-down on the loans transferred.

NOTE 8 ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses was as follows:

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

Individually impaired loans were as follows:

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

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

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Nonperforming loans were as follows:

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

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

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

NOTE 9 GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2008 and determined that no impairment existed as of this date. Old National recorded $8.7 million of goodwill in 2009 associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group.

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

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
June 30, 2009			
Amortized intangible assets:			
Core deposit	**$ 26,810**	**$ (8,671)**	**$ 18,139**
Customer business relationships	**25,753**	**(11,187)**	**14,566**
Customer loan relationships	**4,413**	**(970)**	**3,443**
Total intangible assets	**$ 56,976**	**$ (20,828)**	**$ 36,148**
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. During the second quarter of 2008, Old National recorded $0.7 million for impairment of intangibles due to the loss of a significant insurance client at one of its insurance subsidiaries. The insurance subsidiary is included in the Other column for segment reporting. Total amortization expense associated with other intangible assets for the six months ended June 30 was $2.7 million in 2009 and $1.8 million in 2008.

Estimated amortization expense for future years is as follows:

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

NOTE 10 ASSETS HELD FOR SALE

Assets held for sale are summarized as follows:

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

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

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

NOTE 11 SHORT-TERM BORROWINGS

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

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

Other Short-term Borrowings

Line of Credit

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

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

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Term Auction Facility

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

NOTE 12 FINANCING ACTIVITIES

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

(dollars in thousands)	June 30, 2009	December 31, 2008
Old National Bancorp:		
Senior unsecured note (fixed rate 5.00%) maturing May 2010	**$ 50,000**	$ 50,000
Junior subordinated debenture (fixed rates 6.27% to 8.00% and variable rate 3.65%) maturing April 2032 to March 2035	**108,000**	108,000
SFAS 133 fair value hedge and other basis adjustments	**(749)**	(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	**399,871**	425,198
Subordinated bank notes (fixed rate 6.75%) maturing October 2011	**150,000**	150,000
Capital lease obligation	**4,370**	4,390
SFAS 133 fair value hedge and other basis adjustments	**(187)**	(950)
Total other borrowings	**$ 810,305**	$ 834,867

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

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

FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances had weighted-average rates of 3.82% and 3.81% at June 30, 2009, and December 31, 2008, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 150% of outstanding debt.

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SUBORDINATED BANK NOTES

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

JUNIOR SUBORDINATED DEBENTURES

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

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

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

CAPITAL LEASE OBLIGATION

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

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

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

NOTE 13 EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five years of employment. The freezing of the plan provides that future salary increases will not be considered. Old National s policy is to contribute at least the minimum funding requirement determined by the plan s actuary.

Old National also maintains an unfunded pension restoration plan (the Restoration Plan) which provides benefits for eligible employees that are in excess of the limits under Section 415 of the Internal Revenue Code of 1986, as amended, that apply to the Retirement Plan. The Restoration Plan is designed to comply with the requirements of ERISA. The entire cost of the plan, which was also frozen as of December 31, 2005, is supported by contributions from the Company.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2009**	2008	**2009**	2008
Interest cost	**$ 493**	$ 535	**$ 986**	$ 1,071
Expected return on plan assets	**(482)**	(792)	**(965)**	(1,584)
Recognized actuarial loss	**363**	158	**726**	316
Settlement	**(350)**	434	&nb	434