

OLD NATIONAL BANCORP /IN/
Form 10-K
February 27, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)

Of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2011

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of the 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)	

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Securities registered pursuant to Section 12(b) of the Act

Title of Each Class	Name of each exchange on which registered
Common Stock, No Par Value	New York Stock Exchange

Preferred Stock Purchase Rights

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for 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 (§232.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one)

Large accelerated filer Accelerated filer

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

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

The aggregate market value of the Registrant's voting common stock held by non-affiliates on June 30, 2011, was \$991,424,057 (based on the closing price on that date of \$10.80). In calculating the market value of securities held by non-affiliates of the Registrant, the Registrant has treated as securities held by affiliates as of June 30, 2011, voting stock owned of record by its directors and principal executive officers, and voting stock held by the Registrant's trust department in a fiduciary capacity for benefit of its directors and principal executive officers. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares outstanding of the Registrant's common stock, as of January 31, 2012, was 94,655,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 10, 2012, are incorporated by reference into Part III of this Form 10-K.

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2011 ANNUAL REPORT ON FORM 10-K**

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OLD NATIONAL BANCORP

2011 ANNUAL REPORT ON FORM 10-K

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 Bancorp (Old National, or the Company). Forward-looking statements are identified by the words expect, may, could, intend, project, believe, anticipate and similar expressions. Forward-looking statements also include, but are not limited to, statements regarding estimated cost savings, plans and objectives for future operations, the Company's business and growth strategies, including future acquisitions of banks, regulatory developments, 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;

expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;

unexpected difficulties and losses related to FDIC-assisted acquisitions, including those resulting from our loss-sharing arrangements with the FDIC;

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;

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.

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PART I

ITEM 1. BUSINESS

GENERAL

Old National is a financial holding company incorporated in the State of Indiana and maintains its principal executive office in Evansville, Indiana. We, through our wholly owned banking subsidiary, provide a wide range of services, including commercial and consumer loan and depository services, investment and brokerage services, lease financing and other traditional banking services. Through our non-bank affiliates, we provide services to supplement the banking business including fiduciary and wealth management services, insurance and other financial services. As of December 31, 2011, we employed 2,551 full-time equivalent associates.

COMPANY PROFILE

Old National Bank, our wholly owned banking subsidiary (Old National Bank), was founded in 1834 and is the oldest company in Evansville, Indiana. In 1982, Old National was formed; in 2001 we became a financial holding company and we are currently the largest financial holding company headquartered in the state of Indiana. Also in 2001, we completed the consolidation of 21 bank charters enabling us to operate under a common name with consistent product offerings throughout the financial center locations, consolidating back-office operations and allowing us to provide more convenient service to clients. We provide financial services primarily in Indiana, eastern and southeastern Illinois, and central and western Kentucky.

OPERATING SEGMENTS

We operate in two segments: community banking and treasury. Substantially all of our revenues are derived from customers located in, and substantially all of our assets are located in, the United States. A description of each segment follows.

Community Banking Segment

The community banking segment operates through Old National Bank, and has traditionally been the most significant contributor to our revenue and earnings. The primary goal of the community banking segment is to provide products and services that address clients' needs and help clients reach their financial goals by offering a broad array of quality services. Our financial centers focus on convenience factors such as location, space for private consultations and quick client access to routine transactions.

As of December 31, 2011, Old National Bank operated 183 banking financial centers located primarily in Indiana, Illinois, and Kentucky. The community banking segment primarily consists of lending and depository activities along with merchant cash management, internet banking and other services relating to the general banking business. In addition, the community banking segment includes Indiana Old National Insurance Company (IONIC), which reinsures credit life insurance. IONIC also provides property and casualty insurance for Old National and reinsures most of the coverage with non-affiliated carriers.

Lending Activities

We earn interest income on loans as well as fee income from the origination of loans. Lending activities include loans to individuals which primarily consist of home equity lines of credit, residential real estate loans and consumer loans, and loans to commercial clients, which include commercial loans, commercial real estate loans, letters of credit and lease financing. Residential real estate loans are either kept in our loan portfolio or sold servicing released to secondary investors, with gains or losses from the sales being recognized.

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Depository Activities

We strive to serve individuals and commercial clients by providing depository services that fit their needs at competitive rates. We pay interest on the interest-bearing deposits and receive service fee revenue on various accounts. Deposit accounts include products such as noninterest-bearing demand, negotiable order of withdrawal (NOW), savings and money market, and time deposits. Debit and ATM cards provide clients with access to their accounts 24 hours a day at any ATM location. We also provide 24-hour telephone access and online banking as well as other electronic banking services.

Investment and Brokerage Services

We, through a registered third party broker-dealer, provide clients with convenient and professional investment services and a variety of brokerage products. This line of business offers a full array of investment options and investment advice to its clients.

Treasury Segment

Treasury manages investments, wholesale funding, interest rate risk, liquidity and leverage for Old National. Treasury also provides capital markets products, including interest rate derivatives, foreign exchange and industrial revenue bond financing for our commercial clients.

Other

The following lines of business are included in the other column for all periods reported:

Wealth Management

Fiduciary and trust services targeted at high net worth individuals are offered through an affiliate trust company under the business name of Old National Trust Company.

Insurance Agency Services

Through our insurance agency subsidiaries, we offer full-service insurance brokerage services including commercial property and casualty, surety, loss control services, employee benefits consulting and administration, and personal insurance. These subsidiaries are insurance agencies that offer products that are issued and underwritten by various insurance companies not affiliated with us.

Additional information about our business segments is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 23 to the consolidated financial statements.

MARKET AREA

We own the largest Indiana-based bank and one of the largest independent insurance agencies headquartered in Indiana. Operating from a home base in Evansville, Indiana, we have continued to grow our footprint in Indiana and Kentucky with continued expansion in the attractive Louisville, Indianapolis and Lafayette markets. In February 2007, we expanded into Northern Indiana by acquiring St. Joseph Capital Corporation, which had banking offices in Mishawaka and Elkhart, Indiana. In March 2009, we completed the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which consisted of 65 branches and a training facility. The branches are located primarily in the Indianapolis area. On January 1, 2011, we closed on our acquisition of Monroe Bancorp, strengthening our presence in Bloomington, Indiana and the central and south central Indiana markets. On July 29, 2011, we acquired the banking operations of Integra Bank N.A. in an FDIC-assisted transaction. Integra Bank was a full service community bank headquartered in Evansville, Indiana that operated 52 branch locations, primarily in southwest Indiana, southeastern Illinois and western Kentucky.

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The following table reflects the market locations where we have a significant share of the deposit market. The market share data is by metropolitan statistical area. The Evansville, Indiana data includes branches in Henderson, Kentucky. The data includes deposit information for Integra Bank, which was acquired on July 29, 2011.

Old National Deposit Market Share and Number of Branch Locations**Deposits as of June 30, 2011**

Market Location	September 30, Number of Branches	September 30, Deposit Market Share Rank
Evansville, Indiana	23	1st
Bloomington, Indiana	9	1st
Vincennes, Indiana	4	1st
Central City, Kentucky	4	1st
Danville, Indiana	3	1st
Madisonville, Kentucky	3	1st
Washington, Indiana	5	1st
Jaspar, Indiana	8	2nd
Terre Haute, Indiana	6	2nd
Muncie, Indiana	6	3rd
Carbondale, Illinois	4	3rd
Mt. Vernon, Illinois	1	3rd

Source: FDIC

ACQUISITION AND DIVESTITURE STRATEGY

Since the formation of Old National in 1982, we have acquired more than 40 financial institutions and financial services companies. Future acquisitions and divestitures will be driven by a disciplined financial process and will be consistent with the existing focus on community banking, client relationships and consistent quality earnings. Targeted geographic markets for acquisitions include mid-size markets within or near our existing franchise with average to above average growth rates.

As with previous acquisitions, the consideration paid by us will be in the form of cash, debt or Old National stock. The amount and structure of such consideration is based on reasonable growth and cost savings assumptions and a thorough analysis of the impact on both long- and short-term financial results.

On January 1, 2011, we acquired Monroe Bancorp in an all stock transaction. Monroe Bancorp was headquartered in Bloomington, Indiana and had 15 banking centers. Pursuant to the merger agreement, the shareholders of Monroe Bancorp received approximately 7.6 million shares of Old National Bancorp stock valued at approximately \$90.1 million. On January 1, 2011, unaudited financial statements of Monroe Bancorp showed assets of \$808.1 million, which included \$509.6 million of loans, \$166.4 million of securities and \$711.5 million of deposits. The acquisition strengthens our deposit market share in the Bloomington, Indiana market and improved our deposit market share rank to first place in 2011.

On June 1, 2011, Old National Bancorp's wholly owned trust subsidiary, American National Trust and Investment Management Company d/b/a Old National Trust Company (ONTC), acquired the trust business of Integra Bank, N.A. As of the closing, the trust business had approximately \$328 million in assets under management. Old National paid Integra \$1.3 million in an all cash transaction. At December 31, 2011, total assets under management by Old National's Wealth Management division were approximately \$4.2 billion.

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC-assisted transaction. Integra was a full service community bank headquartered in Evansville, Indiana that operated 52 branch locations. As part of the purchase and assumption agreement, the Company and the FDIC entered into loss sharing agreements (each, a loss sharing agreement and collectively, the loss sharing agreements), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), other real estate owned (OREO) and up to 90 days of certain accrued interest on loans. The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss

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sharing agreements, the FDIC will reimburse Old National for 80% of losses up to \$275.0 million, losses in excess of \$275.0 million up to \$467.2 million at 0% reimbursement, and 80% of losses in excess of \$467.2 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC has reimbursed the Bank under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

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

COMPETITION

The banking industry and related financial service providers operate in a highly competitive market. Old National competes with financial service providers such as local, regional and national banking institutions, savings and loan associations, credit unions, finance companies, investment brokers, and mortgage banking companies. In addition, Old National's non-bank services face competition with asset managers and advisory services, money market and mutual fund companies and insurance agencies.

SUPERVISION AND REGULATION

Old National is subject to extensive regulation under federal and state laws. The regulatory framework is intended primarily for the protection of depositors, federal deposit insurance funds and the banking system as a whole and not for the protection of shareholders and creditors.

Significant elements of the laws and regulations applicable to Old National and its subsidiaries are described below. The description is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to Old National and its subsidiaries could have a material effect on the business of the company.

The Dodd-Frank Act

On July 21, 2010, financial regulatory reform legislation entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, will:

Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining and enforcing compliance with federal consumer financial laws.

Restrict the preemption of state law by federal law and disallow subsidiaries and affiliates of national banks, such as Old National Bank, from availing themselves of such preemption.

Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, which, among other things, will require Old National to deduct, over three years beginning January 1, 2013, all trust preferred securities from Old National's Tier 1 capital.

Require the Office of the Comptroller of the Currency to seek to make its capital requirements for national banks, such as Old National Bank, countercyclical so that capital requirements increase in times of economic expansion and decrease in times of

economic contraction.

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Require financial holding companies to be well capitalized and well managed as of July 21, 2011. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state.

Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the Deposit Insurance Fund (DIF) and increase the floor of the size of the DIF.

Impose comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself.

Require large, publicly traded bank holding companies to create a risk committee responsible for the oversight of enterprise risk management.

Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions.

Make permanent the \$250 thousand limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from \$100 thousand to \$250 thousand and provide unlimited federal deposit insurance until December 31, 2012 for noninterest bearing demand transaction accounts at all insured depository institutions.

Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction accounts as well as other accounts.

Amend the Electronic Fund Transfer Act (EFTA) to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Old National, its customers or the financial industry more generally. Provisions in the legislation that affect the payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. Provisions in the legislation that revoke the Tier 1 capital treatment of trust preferred securities and otherwise require revisions to the capital requirements of Old National and Old National Bank could require Old National and Old National Bank to seek other sources of capital in the future.

Other Regulatory Agencies and Requirements

Old National is registered as a bank holding company and has elected to be a financial holding company. It is subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (Federal Reserve) under the Bank Holding Company Act of 1956, as amended (BHC Act). The Federal Reserve has issued regulations under the BHC Act requiring a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. It is the policy of the Federal Reserve that, pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity.

The BHC Act requires the prior approval of the Federal Reserve to acquire more than a 5% voting interest of any bank or bank holding company. Additionally, the BHC Act restricts Old National's non-banking activities to those which are determined by the Federal Reserve to be closely related to banking and a proper incident thereto.

On October 26, 2001, the USA Patriot Act of 2001 was signed into law. Enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. on September 11, 2001, the Patriot Act is intended to strengthen U.S. law enforcement's and the intelligence community's

ability to work cohesively to combat terrorism on a variety of fronts. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and the statute and regulations promulgated under it impose a number of significant obligations on entities subject to its provisions, including: (a) due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons; (b) standards for verifying customer identification at account opening; (c) rules to promote cooperation among financial institutions, regulators and law enforcement

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entities in identifying parties that may be involved in terrorism or money laundering; (d) reports by non-financial trades and businesses filed with the U.S. Treasury Department's (the Treasury Department or the Treasury) Financial Crimes Enforcement Network for transactions exceeding \$10,000; and (e) filing of suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws and regulations.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become undercapitalized (as defined in FDICIA) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal bank regulatory agency.

Bank holding companies are required to comply with the Federal Reserve's risk-based capital guidelines. The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) have adopted risk-based capital ratio guidelines to which depository institutions under their respective supervision are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Old National's banking affiliate, Old National Bank, met all risk-based capital requirements of the FDIC and OCC as of December 31, 2011. For Old National's regulatory capital ratios and regulatory requirements as of December 31, 2011, see Note 21 to the consolidated financial statements.

In December 2010 and January 2011, the Basel Committee on Banking Supervision published the final texts of reforms on capital and liquidity generally referred to as Basel III. Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by United States banking regulators in developing new regulations applicable to other banks in the United States, including Old National Bank.

For banks in the United States, among the most significant provisions of Basel III concerning capital are the following:

A minimum ratio of common equity to risk-weighted assets reaching 4.5%, plus an additional 2.5% as a capital conservation buffer, by 2019 after a phase-in period.

A minimum ratio of Tier 1 capital to risk-weighted assets reaching 6.0% by 2019 after a phase-in period.

A minimum ratio of total capital to risk-weighted assets, plus the additional 2.5% capital conservation buffer, reaching 10.5% by 2019 after a phase-in period.

An additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at their discretion, with advance notice.

Restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone.

Deduction from common equity of deferred tax assets that depend on future profitability to be realized.

Increased capital requirements for counterparty credit risk relating to OTC derivatives, repos and securities financing activities.

For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement such that the instrument must be written off or converted to common equity if a trigger event occurs, either pursuant to applicable law or at the direction of the banking regulator. A trigger event is an event under which the banking entity would become nonviable without the

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write-off or conversion, or without an injection of capital from the public sector. The issuer must maintain authorization to issue the requisite shares of common equity if conversion were required.

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The Basel III provisions on liquidity include complex criteria establishing a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR). The purpose of the LCR is to ensure that a bank maintains adequate unencumbered, high quality liquid assets to meet its liquidity needs for 30 days under a severe liquidity stress scenario. The purpose of the NSFR is to promote more medium and long-term funding of assets and activities, using a one-year horizon. Although Basel III is described as a final text, it is subject to the resolution of certain issues and to further guidance and modification, as well as to adoption by United States banking regulators, including decisions as to whether and to what extent it will apply to United States banks that are not large, internationally active banks, such as Old National. In June 2011, the federal banking agencies adopted a rule applicable to only large, internationally active banks requiring their risk-based capital to meet the higher of the minimum requirements under the advanced approaches or under the risk-based capital rules generally applicable to United States banks.

Old National Bank is subject to the provisions of the National Bank Act, is supervised, regulated and examined by the OCC, and is subject to the rules and regulations of the OCC, Federal Reserve and the FDIC. A substantial portion of Old National's cash revenue is derived from dividends paid to it by Old National Bank. These dividends are subject to various legal and regulatory restrictions as summarized in Note 21 to the consolidated financial statements.

Both federal and state law extensively regulate various aspects of the banking business, such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Branching by Old National Bank is subject to the jurisdiction and requires notice to or the prior approval of the OCC.

Old National and Old National Bank are subject to the Federal Reserve Act, which restricts financial transactions between banks and affiliated companies. The statute limits credit transactions between banks, affiliated companies and its executive officers and its affiliates. The statute prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices, and restricts the types of collateral security permitted in connection with a bank's extension of credit to an affiliate. Additionally, all transactions with an affiliate must be on terms substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with nonaffiliated parties.

FDICIA accomplished a number of sweeping changes in the regulation of depository institutions, including Old National Bank. FDICIA requires, among other things, federal bank regulatory authorities to take prompt corrective action with respect to banks which do not meet minimum capital requirements. FDICIA further directs that each federal banking agency prescribe standards for depository institutions and depository institution holding companies relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, management compensation, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value of publicly traded shares and such other standards as the agency deems appropriate.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 allows for interstate banking and interstate branching without regard to whether such activity is permissible under state law. Bank holding companies may now acquire banks anywhere in the United States subject to certain state restrictions.

The Gramm-Leach-Bliley Act (GLBA) permits bank holding companies which have elected to become financial holding companies to engage in a substantially broader range of non-banking activities, including securities, investment advice and insurance activities, than is permissible for bank holding companies that have not elected to become financial holding companies. Old National has elected to be a financial holding company. As a result, Old National may underwrite and sell securities and insurance. It may acquire, or be acquired by, brokerage firms and insurance underwriters.

GLBA established new requirements for financial institutions to provide enhanced privacy protections to customers. In June of 2000, the Federal banking agencies jointly adopted a final regulation providing for the implementation of these protections. Financial institutions are required to provide notice to consumers which details its privacy policies and practices, describes under what conditions a financial institution may disclose nonpublic personal information about consumers to nonaffiliated third parties and provides an opt-out method which enables consumers to prevent the financial institution from disclosing customer information to nonaffiliated third parties. Financial institutions were required to be in compliance with the final regulation by July 1, 2001, and Old National was in compliance at such date and continues to be in compliance.

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In October 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was enacted. The EESA authorized the Treasury Department to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program (TARP). The purpose of TARP was to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The Treasury Department allocated \$350 billion towards the TARP Capital Purchase Program (CPP). Under the CPP, Treasury purchased debt or equity securities from participating institutions. The TARP also included direct purchases or guarantees of troubled assets of financial institutions. Participants in the CPP are subject to executive compensation limits and are encouraged to expand their lending and mortgage loan modifications. For details regarding Old National 's former participation in TARP, refer to the Financial Condition Capital section of Item 7, Management 's Discussion and Analysis of Financial Condition and Results of Operations .

EESA also increased FDIC deposit insurance on most accounts from \$100,000 to \$250,000. The Dodd-Frank Act made permanent the \$250,000 deposit insurance limit for insured deposits.

Following a systemic risk determination, the FDIC established a Temporary Liquidity Guarantee Program (TLGP) on October 14, 2008. The TLGP includes the Transaction Account Guarantee Program (TAGP), which provided unlimited deposit insurance coverage through December 31, 2009 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. Institutions participating in the TAGP pay a 10 basis points fee (annualized) on the balance of each covered account in excess of \$250,000, while the extra deposit insurance is in place. The TAGP was extended through December 31, 2010. The enactment of the Dodd-Frank Act provides unlimited federal deposit insurance until December 31, 2012 for noninterest bearing demand transaction accounts at all insured depository institutions.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law by President Obama. ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including Old National, until the institution has repaid the Treasury, which is now permitted under ARRA without penalty and without the need to raise new capital, subject to the Treasury 's consultation with the recipient 's appropriate regulatory agency. Old National has been a TARP recipient, but has exercised its right to repay Treasury and is no longer subject to the compensation and corporate expenditure limits imposed by ARRA on TARP recipients. For details regarding Old National 's participation in TARP, refer to the Financial Condition Capital section of Item 7, Management 's Discussion and Analysis of Financial Condition and Results of Operations .

In addition to the matters discussed above, Old National Bank is subject to additional regulation of its activities, including a variety of consumer protection regulations affecting its lending, deposit and collection activities and regulations affecting secondary mortgage market activities. The earnings of financial institutions are also affected by general economic conditions and prevailing interest rates, both domestic and foreign and by the monetary and fiscal policies of the United States government and its various agencies, particularly the Federal Reserve.

Additional legislative and administrative actions affecting the banking industry may be considered by Congress, state legislatures and various regulatory agencies, including those referred to above. It cannot be predicted with certainty whether such legislative or administrative action will be enacted or the extent to which the banking industry in general or Old National and Old National Bank in particular would be affected.

AVAILABLE INFORMATION

All reports filed electronically by Old National with the Securities and Exchange Commission (SEC), including the annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements, other information and amendments to those reports filed (if applicable), are accessible at no

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cost on Old National's web site at www.oldnational.com. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, and Old National's filings are accessible on the SEC's web site at www.sec.gov. The public may read and copy any materials filed by Old National with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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

Economic conditions have affected and could continue to adversely affect our revenues and profits.

From December 2007 through June 2009, the U.S. economy was in recession. Business activity across a wide range of industries and regions in the U.S. was greatly reduced. Although economic conditions have begun to slowly improve, certain sectors, such as real estate, remain weak and unemployment remains high. Local governments and many businesses are still in serious difficulty due to lower consumer spending and the lack of liquidity in the credit markets.

Market conditions also led to the failure or merger of several prominent financial institutions and numerous regional and community-based financial institutions. These failures, as well as projected future failures, have had a significant negative impact on the capitalization level of the deposit insurance fund of the FDIC, which, in turn, has led to a significant increase in deposit insurance premiums paid by financial institutions.

Old National's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services that Old National offers, is highly dependent upon the business environment in the markets where Old National operates and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters, terrorist acts or a combination of these or other factors.

The business environment has been adverse for many households and businesses in the United States and worldwide. While economic conditions in the United States and worldwide have begun to improve, there can be no assurance that this improvement will continue. Such conditions could adversely affect the credit quality of Old National's loans, results of operations and financial condition.

In response to economic and market conditions, from time to time we have undertaken initiatives to reduce our cost structure where appropriate. These initiatives, as well as any future workforce and facilities reductions, may not be sufficient to meet current and future changes in economic and market conditions and allow us to achieve profitability. In addition, costs actually incurred in connection with our restructuring actions may be higher than our estimates of such costs and/or may not lead to the anticipated cost savings. Unless and until the economy, loan demand, credit quality and consumer confidence improve, it is unlikely that revenues will increase significantly, and may be reduced further.

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,

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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.

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

Old National 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 Old National Bank or the borrowers. These factors include weather, commodity prices, and interest rates.

We face risks with respect to expansion.

We have acquired, and may continue to 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.

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 mergers or acquisitions will be successful. Also, we may issue equity securities in connection with acquisitions, which could cause ownership and economic dilution to our current shareholders. There is no assurance that, following any 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.

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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;

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.

In the current economic environment, we anticipate that in addition to opportunities to acquire other banks in privately negotiated transactions, we may also have opportunities to bid to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. These acquisitions involve risks similar to acquiring existing banks. Because FDIC-assisted acquisitions are structured in a manner that would not allow us the time normally associated with due diligence investigations prior to committing to purchase the target bank or preparing for integrations of an acquired bank, we may face additional risks in FDIC-assisted transactions. These risks include, among other things: