OLD NATIONAL BANCORP /IN/
Form 10-Q
November 08, 2011

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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 September 30, 2011

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes 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 94,752,000 shares outstanding at September 30, 2011.

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OLD NATIONAL BANCORP
CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	September 30, 2011 (unaudited)	December 31, 2010	September 30, 2010 (unaudited)
Assets			
Cash and due from banks	**$ 194,606**	$ 107,368	$ 129,169
Money market and other interest-earning investments	**74,623**	144,184	43,102
Total cash and cash equivalents	**269,229**	251,552	172,271
Trading securities at fair value	**2,794**		
Investment securities available-for-sale, at fair value			
U.S. Treasury	**65,951**	62,550	51,814
U.S. Government-sponsored entities and agencies	**180,934**	315,133	538,148
Mortgage-backed securities	**1,441,585**	1,071,252	1,102,758
States and political subdivisions	**391,202**	348,924	336,993
Other securities	**173,417**	162,363	161,091
Total investment securities available-for-sale	**2,253,089**	1,960,222	2,190,804
Investment securities held-to-maturity, at amortized cost (fair value $517,427, $625,643 and $770,688 respectively)	**493,282**	638,210	753,835
Federal Home Loan Bank stock, at cost	**34,870**	31,937	36,090
Residential loans held for sale, at fair value	**4,710**	3,819	3,512
Loans:			
Commercial	**1,246,289**	1,211,399	1,266,893
Commercial real estate	**1,128,374**	942,395	981,524
Residential real estate	**865,951**	664,705	482,967
Consumer credit, net of unearned income	**899,446**	924,952	971,756
Covered loans, net of discount	**711,266**		
Total loans	**4,851,326**	3,743,451	3,703,140
Allowance for loan losses	**(65,219)**	(72,309)	(72,149)
Allowance for loan losses covered loans	**(303)**		
Net loans	**4,785,804**	3,671,142	3,630,991
FDIC indemnification asset	**168,091**		
Premises and equipment, net	**75,257**	48,775	50,057
Accrued interest receivable	**43,713**	42,971	44,376
Goodwill	**265,985**	167,884	167,884
Other intangible assets	**36,298**	26,178	27,681
Company-owned life insurance	**247,234**	226,192	225,985
Other real estate owned	**9,390**	5,591	5,886
Other real estate owned covered	**31,908**		
Other assets	**211,046**	189,419	196,742
Total assets	**$ 8,932,700**	$ 7,263,892	$ 7,506,114

Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 1,728,548**	$ 1,276,024	$ 1,267,404
Interest-bearing:			
NOW	**1,517,117**	1,297,443	1,163,610
Savings	**1,624,786**	1,079,376	1,046,011
Money market	**306,089**	334,825	344,297
Time	**1,690,723**	1,475,257	1,618,115
Total deposits	**6,867,263**	5,462,925	5,439,437
Short-term borrowings	**341,004**	298,232	367,761
Other borrowings	**443,884**	421,911	578,282
FDIC true-up liability	**14,090**		
Accrued expenses and other liabilities	**238,764**	202,019	224,950
Total liabilities	**7,905,005**	6,385,087	6,610,430
Shareholders Equity			
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding			
Common stock, $1 stated value, 150,000 shares authorized, 94,752, 87,183 and 87,172 shares issued and outstanding, respectively	**94,752**	87,183	87,172
Capital surplus	**834,060**	748,873	748,292
Retained earnings	**74,312**	44,018	44,404
Accumulated other comprehensive income (loss), net of tax	**24,571**	(1,269)	15,816
Total shareholders equity	**1,027,695**	878,805	895,684
Total liabilities and shareholders equity	**$ 8,932,700**	$ 7,263,892	$ 7,506,114

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)

(dollars and shares in thousands, except per share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest Income				
Loans including fees:				
Taxable	**$ 62,706**	$ 43,635	**$ 165,058**	$ 132,416
Nontaxable	**2,361**	2,479	**7,018**	7,145
Investment securities, available-for-sale:				
Taxable	**13,197**	16,470	**39,730**	57,021
Nontaxable	**3,331**	3,620	**10,172**	12,700
Investment securities, held-to-maturity, taxable	**5,487**	6,671	**18,039**	16,230
Money market and other interest-earning investments	**87**	70	**341**	371
Total interest income	**87,169**	72,945	**240,358**	225,883
Interest Expense				
Deposits	**9,401**	11,428	**28,989**	37,971
Short-term borrowings	**132**	132	**390**	527
Other borrowings	**5,044**	7,217	**14,701**	22,946
Total interest expense	**14,577**	18,777	**44,080**	61,444
Net interest income	**72,592**	54,168	**196,278**	164,439
Provision for loan losses	**(82)**	6,400	**6,437**	23,681
Net interest income after provision for loan losses	**72,674**	47,768	**189,841**	140,758
Noninterest Income				
Wealth management fees	**5,094**	3,847	**15,521**	12,097
Service charges on deposit accounts	**14,048**	12,411	**38,062**	37,507
ATM fees	**6,766**	5,821	**18,736**	17,278
Mortgage banking revenue	**699**	644	**2,560**	1,765
Insurance premiums and commissions	**8,335**	8,691	**27,916**	27,809
Investment product fees	**2,977**	2,325	**8,504**	6,613
Company-owned life insurance	**1,393**	1,034	**3,863**	3,059
Net securities gains	**2,861**	3,281	**5,026**	12,792
Total other-than-temporary impairment losses	**(140)**	(39)	**(1,872)**	(4,441)
Loss recognized in other comprehensive income	**140**		**1,373**	1,133
Impairment losses recognized in earnings		(39)	**(499)**	(3,308)
Gain on derivatives	**149**	370	**702**	1,386
Gain on sale leaseback transactions	**1,636**	1,636	**4,909**	4,815
Change in FDIC indemnification asset	**535**		**535**	
Other income	**2,833**	1,958	**7,901**	6,132
Total noninterest income	**47,326**	41,979	**133,736**	127,945

Noninterest Expense				
Salaries and employee benefits	**52,325**	41,696	**139,930**	125,214
Occupancy	**13,328**	11,723	**37,826**	35,781
Equipment	**2,878**	2,623	**8,720**	8,049
Marketing	**1,294**	1,527	**4,193**	4,274
Data processing	**5,703**	5,124	**17,538**	16,273
Communication	**2,529**	2,329	**7,507**	7,489
Professional fees	**5,905**	1,600	**10,462**	5,477
Loan expense	**1,139**	980	**3,351**	2,996
Supplies	**646**	710	**2,191**	2,179
Loss on extinguishment of debt		870		2,274
FDIC assessment	**1,657**	2,077	**5,621**	6,201
Amortization of intangibles	**2,106**	1,501	**5,868**	4,627
Other expense	**5,648**	3,342	**11,634**	10,199
Total noninterest expense	**95,158**	76,102	**254,841**	231,033
Income before income taxes	**24,842**	13,645	**68,736**	37,670
Income tax expense	**8,045**	1,749	**18,490**	5,182
Net income	**$ 16,797**	$ 11,896	**$ 50,246**	$ 32,488
Net income per common share basic	**$ 0.18**	$ 0.13	**$ 0.53**	$ 0.37
Net income per common share diluted	**0.18**	0.13	**0.53**	0.37
Weighted average number of common shares outstanding basic	**94,492**	86,795	**94,468**	86,778
Weighted average number of common shares outstanding diluted	**94,785**	86,931	**94,722**	86,890
Dividends per common share	**$ 0.07**	$ 0.07	**$ 0.21**	$ 0.21

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)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity	Comprehensive Income
Balance, December 31, 2009	$ 87,182	$ 746,775	$ 30,235	$ (20,366)	$ 843,826	
Comprehensive income						
Net income			32,488		32,488	$ 32,488
Other comprehensive income (1)						
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				29,295	29,295	29,295
Transferred securities, net of tax				5,110	5,110	5,110
Reclassification adjustment on cash flows hedges, net of tax				845	845	845
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax				932	932	932
Total comprehensive income						$ 68,670
Dividends common stock			(18,268)		(18,268)	
Common stock issued	13	123			136	
Common stock repurchased	(41)	(442)			(483)	
Stock based compensation expense		1,702			1,702	
Stock activity under incentive comp plans	18	134	(51)		101	
Balance, September 30, 2010	$ 87,172	$ 748,292	$ 44,404	$ 15,816	$ 895,684	
Balance, December 31, 2010	**$ 87,183**	**$ 748,873**	**$ 44,018**	**$ (1,269)**	**$ 878,805**	
Comprehensive income						
Net income			**50,246**		**50,246**	**$ 50,246**
Other comprehensive income (1)						
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				**25,222**	**25,222**	**25,222**
Transferred securities, net of tax				**(783)**	**(783)**	**(783)**
Reclassification adjustment on cash flows hedges, net of tax				**(481)**	**(481)**	**(481)**
				1,882	**1,882**	**1,882**

Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax						
Total comprehensive income						$ 76,086
Acquisition Monroe Bancorp	**7,575**	**82,495**			**90,070**	
Dividends common stock			**(19,889)**		**(19,889)**	
Common stock issued	**15**	**151**			**166**	
Common stock repurchased	**(33)**	**(308)**			**(341)**	
Stock based compensation expense		**2,551**			**2,551**	
Stock activity under incentive comp plans	**12**	**298**	**(63)**		**247**	
Balance, September 30, 2011	**$ 94,752**	**$ 834,060**	**$ 74,312**	**$ 24,571**	**$ 1,027,695**	

(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)	Nine Months Ended September 30, 2011	2010
Cash Flows From Operating Activities		
Net income	**$ 50,246**	$ 32,488
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**7,269**	6,948
Amortization and impairment of other intangible assets	**5,868**	4,627
Net premium amortization on investment securities	**8,060**	4,860
Change in FDIC indemnification asset	**(535)**	
Stock-based compensation expense	**2,551**	1,702
Provision for loan losses	**6,437**	23,681
Net securities gains	**(5,026)**	(12,792)
Impairment on available-for-sale securities	**499**	3,308
Gain on sale leasebacks	**(4,909)**	(4,815)
Gain on derivatives	**(702)**	(1,386)
Net gains on sales and write-downs of loans and other assets	**(1,459)**	(1,131)
Loss on extinguishment of debt		2,274
Increase in cash surrender value of company owned life insurance	**(3,836)**	(1,333)
Residential real estate loans originated for sale	**(70,232)**	(44,404)
Proceeds from sale of residential real estate loans	**79,089**	59,635
Decrease in interest receivable	**5,812**	4,964
Decrease in other assets	**17,220**	4,529
Increase (decrease) in accrued expenses and other liabilities	**15,838**	1,380
Total adjustments	**61,944**	52,047
Net cash flows provided by operating activities	**112,190**	84,535
Cash Flows From Investing Activities		
Cash and cash equivalents of acquired banks	**398,558**	
Purchase of trust assets	**(1,301)**	
Net cash paid in FDIC-assisted transaction	**(151,264)**	
Purchases of investment securities available-for-sale	**(490,086)**	(873,737)
Purchases of investment securities held-to-maturity		(255,828)
Proceeds from the call/repurchase of FHLB stock	**14,587**	
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**379,727**	752,062
Proceeds from sales of investment securities available-for-sale	**454,110**	339,629
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**147,050**	37,376
Proceeds from sale of loans	**4,743**	3,377
Net principal collected from customers	**105,354**	163,149
Proceeds from sale of premises and equipment and other assets	**413**	17
Proceeds from sale leaseback of real estate		3,697

Purchases of premises and equipment	**(4,184)**	(6,215)
Net cash flows provided by investing activities	**857,707**	163,527
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Noninterest-bearing demand deposits	**129,007**	79,061
Savings, NOW and money market deposits	**(59,887)**	(153,673)
Time deposits	**(762,052)**	(389,439)
Short-term borrowings	**(27,411)**	36,617
Payments for maturities on other borrowings	**(725)**	(75,674)
Proceeds from issuance of other borrowings		50,000
Payments related to retirement of debt	**(211,228)**	(101,356)
Cash dividends paid on common stock	**(19,889)**	(18,268)
Common stock repurchased	**(341)**	(483)
Proceeds from exercise of stock options, including tax benefit	**140**	12
Common stock issued	**166**	136
Net cash flows used in financing activities	**(952,220)**	(573,067)
Net increase (decrease) in cash and cash equivalents	**17,677**	(325,005)
Cash and cash equivalents at beginning of period	**251,552**	497,276
Cash and cash equivalents at end of period	**$ 269,229**	$ 172,271
Supplemental cash flow information:		
Total interest paid	**$ 44,814**	$ 62,181
Total taxes paid (net of refunds)	**$ 4,605**	$ (2,775)

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 (hereinafter collectively referred to as Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, valuation and impairment of securities, goodwill and intangibles, derivative financial instruments, and income taxes are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of September 30, 2011 and 2010, and December 31, 2010, and the results of its operations for the three and nine months ended September 30, 2011 and 2010. 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, 2010.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2011 presentation. Such reclassifications had no effect on net income or shareholders equity.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

FASB ASC 350 In December 2010, the FASB issued an update (ASU No. 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts) impacting FASB ASC 350-20, Intangibles Goodwill and Other Goodwill. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For these reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. This update became effective for the Company for interim and annual reporting periods beginning after December 15, 2010 and did not have a material impact on the consolidated financial statements or results of operations.

FASB ASC 805 In December 2010, the FASB issued an update (ASU No. 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations) impacting FASB ASC 805-10, Business Combinations Overall. The amendments specify that if an entity presents comparative financial statements, the entity should disclose pro forma information, including pro forma revenue and earnings, for the combined entity as though the business combination that occurred in the current year had occurred as of the beginning of the comparable prior annual reporting period. Supplemental pro forma disclosures should include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This update became effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010.

FASB ASC 310 In April 2011, the FASB issued an update (ASU No. 2011-02, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring) impacting FASB ASC 310-40, Troubled Debt Restructurings by Creditors. The amendments specify that in evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following conditions exist: the restructuring constitutes a concession and the debtor is experiencing financial difficulties. The amendments clarify the guidance on these points and give examples of both conditions. This update became effective for the Company for interim or annual reporting periods beginning on or after June 15, 2011 and did not have a material impact on the consolidated financial statements or results of operations.

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FASB ASC 860 In April 2011, the FASB issued an update (ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements) impacting FASB ASC 860-10, Transfers and Servicing Overall. The amendments remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. This update becomes effective for the Company for interim and annual reporting periods beginning on or after December 15, 2011. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 820 In May 2011, the FASB issued an update (ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs) impacting FASB ASC 820, Fair Value Measurement. The amendments in this update will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards (IFRSs). Among the many areas affected by this update are the concept of highest and best use, the fair value of an instrument included in shareholders equity and disclosures about fair value measurement, especially disclosures about fair value measurements categorized within Level 3 of the fair value hierarchy. This update becomes effective for the Company for interim and annual reporting periods beginning after December 15, 2011. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 220 In June 2011, the FASB issued an update (ASU No. 2011-05, Presentation of Comprehensive Income) impacting FASB ASC 220, Comprehensive Income. The amendments in this update eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. An entity will have the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. An entity will be required to present on the face of financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income. This update becomes effective for the Company for interim and annual reporting periods beginning after December 15, 2011. The Company is currently evaluating the alternative options for presentation established in the new guidance.

FASB ASC 350 In September 2011, the FASB issued an update (ASU No. 2011-08, Testing Goodwill for Impairment) impacting FASB ASC 350-20, Intangibles Goodwill and Other. The amendments in this update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If after assessing the totality of events or circumstances, it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. If an entity concludes that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, the entity is required to perform the first step of the two-step impairment. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss. This update is effective for the Company for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY

Acquisitions

Integra Bank N.A.

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC assisted transaction. 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 certain accrued interest on loans for up to 90 days.

The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss 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.

Integra was a full service community bank headquartered in Evansville, Indiana that operated 52 branch locations. We entered into this transaction due to the attractiveness in the pricing of the acquired loan portfolio, including the indemnification assets, and the attractiveness of immediate low cost core deposits. We also believed there were opportunities to enhance income and improve efficiencies. We believe participating with the FDIC in this assisted transaction was advantageous to the Company.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the July 29, 2011 acquisition date. The application of the acquisition method of accounting resulted in the recognition of $29.7 million of goodwill and $4.3 million of core deposit intangible. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired and is influenced significantly by the FDIC-assisted transaction process. Goodwill of $29.0 million is deductible for income tax purposes.

Due primarily to the significant amount of fair value adjustments and the FDIC loss sharing agreements put in place, historical results for Integra are not meaningful to the Company s results and thus no pro forma information is presented.

A summary, at fair value, of the assets acquired and liabilities assumed in the Integra transaction, as of the acquisition date, is as follows:

(dollars in thousands)	
Assets Acquired	
Cash and cash equivalents	$ 314,954
Investment securities available for sale	452,478
Federal Home Loan Bank stock, at cost	15,226
Federal Reserve Bank stock, at cost	1,222
Residential loans held for sale	1,690
Loans covered	727,330
Loans non-covered	56,828
Premises and equipment	10,474
Other real estate owned	34,055
Accrued interest receivable	4,751
Goodwill	29,673
Other intangible assets	4,291
FDIC indemnification asset	167,948
Other assets	11,169
Assets acquired	$ 1,832,089
Liabilities Assumed	
Deposits	$ 1,443,209
Short-term borrowings	7,654

Other borrowings	192,895
FDIC settlement payable	161,520
Other liabilities	26,811
Liabilities assumed	$ 1,832,089

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Trust Business of Integra Bank

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. in a transaction unrelated to the previously noted FDIC transaction. As of the closing, the trust business had approximately $328 million in assets under management. This transaction brings the total assets under management by Old National s Wealth Management division to approximately $4.4 billion. Old National paid Integra $1.3 million in an all cash transaction and anticipates acquisition-related costs will approximate $150 thousand. Old National recorded $1.3 million of customer relationship intangible assets which will be amortized on an accelerated basis over 12 years and is included in the Other segment, as described in Note 20 of the consolidated financial statement footnotes.

Monroe Bancorp

On January 1, 2011, Old National acquired 100% of Monroe Bancorp (Monroe) in an all stock transaction. Monroe was headquartered in Bloomington, Indiana and had 15 banking centers. The acquisition increases Old National s market position to number 1 in Bloomington and strengthens its position as the third largest branch network in Indiana. Pursuant to the merger agreement, the shareholders of Monroe received approximately 7.6 million shares of Old National Bancorp stock valued at approximately $90.1 million.

Under the acquisition method of accounting, the total estimated purchase price is allocated to Monroe s net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. Based on management s preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on estimates and assumptions that are subject to change, the purchase price for the Monroe acquisition is allocated as follows (in thousands):

Cash and cash equivalents	$	83,604
Investment securities		153,594
Loans		453,366
Premises and equipment		19,738
Accrued interest receivable		1,804
Company-owned life insurance		17,206
Other assets		41,538
Deposits		(653,813)
Short-term borrowings		(62,529)
Other borrowings		(37,352)
Accrued expenses and other liabilities		(6,000)
Net tangible assets acquired		11,156
Definite-lived intangible assets acquired		10,485
Goodwill		68,429
Purchase price	$	90,070

Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively.

Of the total estimated purchase price, an estimate of $11.2 million has been allocated to net tangible assets acquired and $10.5 million has been allocated to definite-lived intangible assets acquired. The remaining purchase price has been allocated to goodwill. The goodwill will not be deductible for tax purposes and is included in the Community Banking and Other segments, as described in Note 20 of these consolidated financial statement footnotes.

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The components of the estimated fair value of the acquired identifiable intangible assets are in the table below. These intangible assets will be amortized on an accelerated basis over their estimated lives and are included in the Community Banking and Other segments, as described in Note 20 of these consolidated financial statement footnotes.

	Estimated Fair Value (in millions)	Estimated Useful Lives (Years)
Core deposit intangible	$ 8.2	10
Trust customer relationship intangible	$ 2.3	12

Divestiture

On October 13, 2011, Old National announced the signing of an agreement to sell the deposits of four former Integra Bank branches located in the Chicago area to First Midwest Bank. As such, these deposits are considered held for sale as of September 30, 2011. The deposits totaled approximately $185.0 million. First Midwest Bank has agreed to pay Old National 50 basis points, or approximately $0.5 million, on the transaction deposits at these four locations. Old National will retain all of the loans. The transaction is expected to close around December 3, 2011.

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NOTE 4 NET INCOME PER SHARE

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

(dollars and shares in thousands, except per share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Basic Earnings Per Share		
Net income	**$ 16,797**	$ 11,896
Weighted average common shares outstanding	**94,492**	86,795
Basic Earnings Per Share	**$ 0.18**	$ 0.13
Diluted Earnings Per Share		
Net income	**$ 16,797**	$ 11,896
Weighted average common shares outstanding	**94,492**	86,795
Effect of dilutive securities:		
Restricted stock (1)	**277**	126
Stock options (2)	**16**	10
Weighted average shares outstanding	**94,785**	86,931
Diluted Earnings Per Share	**$ 0.18**	$ 0.13

(dollars and shares in thousands, except per share data)	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Basic Earnings Per Share		
Net income	**$ 50,246**	$ 32,488
Weighted average common shares outstanding	**94,468**	86,778
Basic Earnings Per Share	**$ 0.53**	$ 0.37
Diluted Earnings Per Share		
Net income	**$ 50,246**	$ 32,488
Weighted average common shares outstanding	**94,468**	86,778
Effect of dilutive securities:		
Restricted stock (1)	**233**	101
Stock options (2)	**21**	11

Weighted average shares outstanding		**94,722**		86,890
Diluted Earnings Per Share	**$**	**0.53**	$	0.37

(1) 2 and 0 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share for the third quarter ended September 30, 2011 and 2010, respectively, because the effect would be antidilutive. 5 and 70 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share for the nine months ended September 30, 2011 and 2010, respectively, because the effect would be antidilutive.

(2) Options to purchase 4,626 shares and 6,001 shares outstanding at September 30, 2011 and 2010, respectively, were not included in the computation of net income per diluted share for the third quarter ended September 30, 2011 and 2010, 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. Options to purchase 4,605 and 6,001 shares outstanding at September 30, 2011 and 2010, respectively, were not included in the computation of net income per diluted share for the nine months ended September 30, 2011 and 2010, 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.

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NOTE 5 COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and unrealized gains and losses on cash flow hedges and changes in funded status of pension plans which are also recognized as separate components of equity. Following is a summary of other comprehensive income for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2011**	2010	**2011**	2010
Net income	**$ 16,797**	$ 11,896	**$ 50,246**	$ 32,488
Other comprehensive income				
Change in securities available for sale:				
Unrealized holding gains arising during the period	**16,032**	26,709	**47,324**	68,779
Reclassification for securities transferred to held-to-maturity				(9,371)
Reclassification adjustment for securities gains realized in income	**(2,861)**	(3,281)	**(5,026)**	(12,792)
Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income	**(140)**		**(1,373)**	(1,133)
Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income		39	**499**	3,308
Income tax effect	**(5,149)**	(9,176)	**(16,202)**	(19,496)
Change in securities held-to-maturity:				
Fair value adjustment for securities transferred from available-for-sale				9,371
Amortization of fair value previously recognized into accumulated other comprehensive income	**(337)**	(416)	**(1,304)**	(860)
Income tax effect	**134**	166	**521**	(3,401)
Cash flow hedges:				
Net unrealized derivative gains (losses) on cash flow hedges	**(412)**	201	**(1,021)**	1,190
Reclassification adjustment on cash flow hedges	**72**	72	**216**	216
Income tax effect	**137**	(109)	**324**	(561)
Defined benefit pension plans:				
Amortization of net loss recognized in income	**1,154**	750	**3,137**	1,552
Income tax effect	**(461)**	(299)	**(1,255)**	(620)
Total other comprehensive income	**8,169**	14,656	**25,840**	36,182
Comprehensive income	**$ 24,966**	$ 26,552	**$ 76,086**	$ 68,670

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The following tables summarize the changes within each classification of accumulated other comprehensive income (AOCI) for the nine months ended September 30, 2011 and 2010:

(dollars in thousands)	AOCI at December 31, 2010	Other Comprehensive Income	AOCI at September 30, 2011
Unrealized gains on available-for-sale securities	**$ 31,962**	**$ 26,058**	**$ 58,020**
Unrealized losses on securities for which other-than-temporary-impairment has been recognized	**(28,173)**	**(836)**	**(29,009)**
Unrealized gains (losses) on held-to-maturity securities	**5,667**	**(783)**	**4,884**
Unrecognized gain (loss) on cash flow hedges	**846**	**(481)**	**365**
Defined benefit pension plans	**(11,571)**	**1,882**	**(9,689)**
Accumulated other comprehensive income (loss)	**$ (1,269)**	**$ 25,840**	**$ 24,571**

(dollars in thousands)	AOCI at December 31, 2009	Other Comprehensive Income	AOCI at September 30, 2010
Unrealized gains on available-for-sale securities	$ 19,789	$ 29,967	$ 49,756
Unrealized losses on securities for which other-than-temporary-impairment has been recognized	(27,501)	(672)	(28,173)
Unrealized gains (losses) on held-to-maturity securities	812	5,110	5,922
Unrecognized gain on cash flow hedges	187	845	1,032
Defined benefit pension plans	(13,653)	932	(12,721)
Accumulated other comprehensive income (loss)	$ (20,366)	$ 36,182	$ 15,816

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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 September 30, 2011 and December 31, 2010 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2011				
Available-for-sale				
U.S. Treasury	**$ 65,260**	**$ 691**	**$**	**$ 65,951**
U.S. Government-sponsored entities and agencies	**178,387**	**2,547**		**180,934**
Mortgage-backed securities Agency	**1,312,193**	**34,705**	**(364)**	**1,346,534**
Mortgage-backed securities Non-agency	**98,570**	**532**	**(4,051)**	**95,051**
States and political subdivisions	**365,305**	**26,051**	**(154)**	**391,202**
Pooled trust preferrred securities	**27,346**		**(19,816)**	**7,530**
Other securities	**158,224**	**9,684**	**(2,021)**	**165,887**
Total available-for-sale securities	**$ 2,205,285**	**$ 74,210**	**$ (26,406)**	**$ 2,253,089**
Held-to-maturity				
U.S. Government-sponsored entities and agencies	**$ 177,963**	**$ 11,654**	**$**	**$ 189,617**
Mortgage-backed securities Agency	**91,622**	**3,750**		**95,372**
States and political subdivisions	**216,643**	**8,848**	**(107)**	**225,384**
Other securities	**7,054**			**7,054**
Total held-to-maturity securities	**$ 493,282**	**$ 24,252**	**$ (107)**	**$ 517,427**
December 31, 2010				
Available-for-sale				
U.S. Treasury	$ 62,206	$ 371	$ (27)	$ 62,550
U.S. Government-sponsored entities and agencies	315,922	1,612	(2,401)	315,133
Mortgage-backed securities Agency	922,005	22,926	(485)	944,446
Mortgage-backed securities Non-agency	134,168	1,018	(8,380)	126,806
States and political subdivisions	343,970	7,503	(2,549)	348,924
Pooled trust preferrred securities	27,368		(18,968)	8,400
Other securities	148,203	7,816	(2,056)	153,963
Total available-for-sale securities	$ 1,953,842	$ 41,246	$ (34,866)	$ 1,960,222
Held-to-maturity				
U.S. Government-sponsored entities and agencies	$ 303,265	$ 2,247	$ (3,703)	$ 301,809
Mortgage-backed securities Agency	117,013	2,577	(510)	119,080
States and political subdivisions	217,381	1	(13,003)	204,379
Other securities	551		(176)	375
Total held-to-maturity securities	$ 638,210	$ 4,825	$ (17,392)	$ 625,643

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

	September 30, 2011		Weighted
(dollars in thousands)	Amortized	Fair	Average
Maturity	**Cost**	**Value**	**Yield**
Available-for-sale			
Within one year	**$ 172,177**	**$ 175,012**	**3.02%**
One to five years	**1,343,097**	**1,373,701**	**2.62**
Five to ten years	**219,497**	**231,257**	**4.11**
Beyond ten years	**470,514**	**473,119**	**4.92**
Total	**$ 2,205,285**	**$ 2,253,089**	**3.29%**
Held-to-maturity			
Within one year	**$ 4,113**	**$ 4,112**	**1.49%**
One to five years	**96,402**	**100,192**	**3.58**
Five to ten years	**12,505**	**13,259**	**4.05**
Beyond ten years	**380,262**	**399,864**	**4.08**
Total	**$ 493,282**	**$ 517,427**	**3.96%**

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The following table summarizes the investment securities with unrealized losses at September 30, 2011 and December 31, 2010 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
September 30, 2011						
Available-for-Sale						
Mortgage-backed securities Agency	**$ 130,244**	**$ (364)**	**$ 3**	**$**	**$ 130,247**	**$ (364)**
Mortgage-backed securities Non-agency	**9,685**	**(439)**	**62,079**	**(3,612)**	**71,764**	**(4,051)**
States and political subdivisions	**2,780**	**(154)**			**2,780**	**(154)**
Pooled trust preferrred securities			**7,531**	**(19,816)**	**7,531**	**(19,816)**
Other securities	**8,222**	**(127)**	**6,173**	**(1,894)**	**14,395**	**(2,021)**
Total available-for-sale	**$ 150,931**	**$ (1,084)**	**$ 75,786**	**$ (25,322)**	**$ 226,717**	**$ (26,406)**
Held-to-Maturity						
States and political subdivisions	**$**	**$**	**$ 13,324**	**$ (107)**	**$ 13,324**	**$ (107)**
Total held-to-maturity	**$**	**$**	**$ 13,324**	**$ (107)**	**$ 13,324**	**$ (107)**
December 31, 2010						
Available-for-Sale						
U.S. Treasury	$ 10,944	$ (27)	$	$	$ 10,944	$ (27)
U.S. Government-sponsored entities and agencies	120,404	(2,401)			120,404	(2,401)
Mortgage-backed securities Agency	160,784	(485)	483		161,267	(485)
Mortgage-backed securities Non-agency	13,265	(1,696)	79,327	(6,684)	92,592	(8,380)
States and political subdivisions	94,448	(2,549)			94,448	(2,549)
Pooled trust preferrred securities			8,400	(18,968)	8,400	(18,968)
Other securities	12,283	(206)	6,204	(1,850)	18,487	(2,056)
Total available-for-sale	$ 412,128	$ (7,364)	$ 94,414	$ (27,502)	$ 506,542	$ (34,866)
Held-to-Maturity						
U.S. Government-sponsored entities and agencies	$ 111,975	$ (3,703)	$	$	$ 111,975	$ (3,703)

Mortgage-backed securities						
Agency	67,837	(510)			67,837	(510)
States and political subdivisions	203,093	(13,003)			203,093	(13,003)
Other securities			375	(176)	375	(176)
Total held-to-maturity	$ 382,905	$ (17,216)	$ 375	$ (176)	$ 383,280	$ (17,392)

Proceeds from sales and calls of securities available for sale were $763.5 million and $882.0 million for the nine months ended September 30, 2011 and 2010, respectively. Gains of $6.0 million and $13.1 million were realized on these sales during 2011 and 2010, respectively, and offsetting losses of $1.0 million and $0.3 million were realized on these sales during 2011 and 2010. Also included in net securities gains for the first nine months of 2011 is $1 thousand of gains associated with the trading securities and other-than-temporary impairment charges related to credit loss on three non-agency mortgage-backed securities in the amount of $0.5 million, described below. Impacting earnings in the first nine months of 2010 were other-than-temporary impairment charges related to credit loss on two pooled trust preferred securities and ten non-agency mortgage-backed securities in the amount of $3.3 million. Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled $2.8 million at September 30, 2011.

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

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

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

As of September 30, 2011, Old National s security portfolio consisted of 1,060 securities, 64 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 September 30, 2011, the Company s securities portfolio contained 14 non-agency collateralized mortgage obligations with a fair value of $95.1 million which had net unrealized losses of approximately $3.5 million. All of these securities are residential mortgage-backed securities. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of FASB ASC 325-10 (EITF 99-20). As of September 30, 2011, nine of these securities were rated below investment grade with grades ranging from B to CC. One of the nine securities is rated B and has a fair value of $14.3 million, three of the securities are rated CCC with a fair value of $27.8 million and five of the securities are rated CC with a fair value of $36.4 million. These securities were evaluated to determine if the underlying collateral is expected to experience loss, resulting in a principal loss of the notes. As part of the evaluation, a detailed analysis of deal-specific data was obtained from remittance reports provided by the trustee and data from the servicer. The collateral was broken down into several distinct buckets based on loan performance characteristics in order to apply different assumptions to each bucket. The most significant drivers affecting loan performance were examined including original loan-to-value (LTV), underlying property location and the loan status. The loans in the current status bucket were further divided based on their original LTV: a high-LTV and a low-LTV group to which different default curves and severity percentages were applied. The high-LTV group was further bifurcated into loans originated in high-risk states and all other states with a higher default-curve and severity percentages being applied to loans originated in the high-risk states. Different default curves and severity rates were applied to the remaining non-current collateral buckets. Using these collateral-specific assumptions, a model was built to project the future performance of the instrument. Based on this analysis of the underlying collateral, Old National recorded $0.5 million of credit losses on three of these securities for the nine months ended September 30, 2011. The fair value of these non-agency mortgage-backed securities remaining at September 30, 2011 was $78.5 million.

Based on an analysis of the underlying collateral, Old National recorded $3.0 million of credit losses on ten non-agency mortgage-backed securities for the nine months ended September 30, 2010. The fair value of these non-agency mortgage-backed securities was $97.7 million at September 30, 2010.

Pooled Trust Preferred Securities

At September 30, 2011, the Company s securities portfolio contained nine pooled trust preferred securities with a fair value of $7.5 million and unrealized losses of $19.8 million. Seven of the pooled trust preferred securities in our portfolio fall within the scope of FASB ASC 325-10 (EITF 99-20) and have a fair value of $4.8 million with unrealized losses of $8.3 million at September 30, 2011. These securities were rated A2 and A3 at inception, but at September 30, 2011, one security was rated BB, four securities were rated C and two securities D. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National s note class. For the nine months ended September 30, 2011, our model indicated no other-than-temporary-impairment losses on these securities.

Two of our pooled trust preferred securities with a fair value of $2.7 million and unrealized losses of $11.5 million at September 30, 2011 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

For the nine months ended September 30, 2010, our model indicated other-than-temporary-impairment losses on two securities of $0.3 million, which was recorded as a credit loss in earnings. At September 30, 2010, the fair value of these two securities was $1.1 million and they remained classified as available for sale.

The two pooled trust preferred securities which were not subject to FASB ASC 325-10 had a fair value of $3.6 million and unrealized losses of $10.5 million at September 30, 2010. These securities were evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

The table below summarizes the relevant characteristics of our nine pooled trust preferred securities as well as four single issuer trust preferred securities. Each of the pooled trust preferred securities support a more senior tranche of security holders except for the MM Community Funding II security which, due to payoffs, Old National is now in the most senior class.

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As depicted in the table below, all nine securities have experienced credit defaults. However, three of these securities have excess subordination and are not other-than-temporarily-impaired as a result of their class hierarchy which provides more loss protection.

Trust preferred securities September 30, 2011 (Dollars in Thousands)	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2011	# of Issuers Currently Performing/ Remaining	Actual Deferrals and Defaults as a Percent of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination as a % of Current Performing Collateral
Pooled trust preferred securities:										
TROPC 2003-1A	A4L	C	$ 977	$ 198	$ (779)	$	18/39	41.7%	17.5%	0.0%
MM Community Funding IX	B-2	D	2,076	859	(1,217)		16/31	41.1%	8.5%	0.0%
Reg Div Funding 2004	B-2	D	4,194	690	(3,504)		24/45	46.0%	6.8%	0.0%
Pretsl XII	B-1	C	2,886	1,508	(1,378)		50/77	30.4%	6.7%	0.0%
Pretsl XV	B-1	C	1,695	568	(1,127)		49/72	36.4%	10.0%	0.0%
Reg Div Funding 2005	B-1	C	311	58	(253)		23/49	49.3%	29.0%	0.0%
MM Community Funding II	B	BB	987	959	(28)		5/8	4.7%	0.0%	26.9%
Pretsl XXVII LTD	B	CC	4,835	655	(4,180)		33/49	28.1%	23.7%	35.6%
Trapeza Ser 13A	A2A	CCC-	9,385	2,035	(7,350)		36/56	29.2%	4.2%	39.8%
			27,346	7,530	(19,816)					
Single Issuer trust preferred securities:										
First Empire Cap (M&T)		BBB-	955	1,004	49					
First Empire Cap (M&T)		BBB-	2,904	3,013	109					
Fleet Cap Tr V (BOA)		BB+	3,357	2,295	(1,062)					
JP Morgan Chase Cap XIII		BBB+	4,710	3,878	(832)					
			11,926	10,190	(1,736)					
Total			$ 39,272	$ 17,720	$ (21,552)	$				

(1) Lowest rating for the security provided by any nationally recognized credit rating agency.

The following table details all securities with other-than-temporary-impairment, their credit rating at September 30, 2011 and the related credit losses recognized in earnings:

	Lowest Credit	Amortized	Amount of other-than-temporary impairment recognized in earnings: Three months ended	Nine months ended

	Vintage	Rating (1)	Cost	September 30, 2011	September 30, 2011
Non-agency mortgage-backed securities:					
FHASI Ser 4	2007	CC	$ 20,003	$	$ 340
HALO Ser 1R	2006	B	15,640		16
RFMSI Ser S10	2006	CC	4,217		143
			$ 39,860		499
Total other-than-temporary-impairment recognized in earnings				$	$ 499

(1) Lowest rating for the security provided by any nationally recognized credit rating agency.

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The following table details all securities with other-than-temporary-impairment, their credit rating at September 30, 2010 and the related credit losses recognized in earnings:

	Vintage	Lowest Credit Rating (1)	Amortized Cost	Amount of other-than-temporary impairment recognized in earnings: Three months ended September 30, 2010	Nine months ended September 30, 2010
Non-agency mortgage-backed securities:					
BAFC Ser 4	2007	CCC	$ 14,026	$	$ 79
CWALT Ser 73CB	2005	CCC	6,606		207
CWALT Ser 73CB	2005	CCC	6,923		427
CWHL 2006-10	2006	C	10,030		309
CWHL 2005-20	2005	B-	9,734		39
FHASI Ser 4	2007	CCC	21,617	37	629
RFMSI Ser S9	2006	CC	32,070		923
RFMSI Ser S10	2006	CC	4,360	2	76
RALI QS2	2006	C	6,565		278
RFMSI S1	2006	CCC	5,127		30
			117,058	39	2,997
Pooled trust preferred securities:					
TROPC	2003	C	1,283		146
MM Community Funding IX	2003	C	2,107		165
			3,390		311
Total other-than-temporary-impairment recognized in earnings				$ 39	$ 3,308

(1) Lowest rating for the security provided by any nationally recognized credit rating agency.

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The following table details all securities with other-than-temporary-impairment, their credit rating at September 30, 2011, and the related credit losses recognized in earnings:

				Amount of other-than-temporary impairment recognized in earnings			
		Lowest Credit Rating (1)	Amortized Cost	Nine months September 30, 2011	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009	Life-to date
	Vintage						
Non-agency mortgage-backed securities:							
BAFC Ser 4	2007	CCC	$ 14,026	$	$ 79	$ 63	$ 142
CWALT Ser 73CB	2005	CC	3,842		207	83	290
CWALT Ser 73CB	2005	CC	4,791		427	182	609
CWHL 2006-10 (3)	2006				309	762	1,071
CWHL 2005-20	2005	CC	5,332		39	72	111
FHASI Ser 4	2007	CC	20,003	340	629	223	1,192
HALO Ser 1R	2006	B	15,640	16			16
RFMSI Ser S9 (2)	2006				923	1,880	2,803
RFMSI Ser S10	2006	CC	4,217	143	76	249	468
RALI QS2 (2)	2006				278	739	1,017
RFMSI S1	2006	CCC	2,802		30	176	206
			70,653	499	2,997	4,429	7,925
Pooled trust preferred securities:							
TROPC	2003	C	977		444	3,517	3,961
MM Community Funding IX	2003	D	2,076		165	2,612	2,777
Reg Div Funding	2004	D	4,194		321	5,199	5,520
Pretsl XII	2003	C	2,886			1,897	1,897
Pretsl XV	2004	C	1,695			3,374	3,374
Reg Div Funding	2005	C	311			3,767	3,767
			12,139		930	20,366	21,296
Total other-than-temporary-impairment recognized in earnings				$ 499	$ 3,927	$ 24,795	$ 29,221

(1) Lowest rating for the security provided by any nationally recognized credit rating agency.

(2) Sold during fourth quarter 2010.

(3) Sold during first quarter 2011.

NOTE 7 LOANS HELD FOR SALE

Residential loans that Old National has committed to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). At September 30, 2011 and December 31, 2010, Old National had residential loans held for sale of $4.7 million and $3.8 million, respectively.

During the first nine months of 2011, commercial and commercial real estate loans held for investment of $4.7 million, including $0.1 million of purchased impaired loans, were reclassified to loans held for sale at the lower of cost or fair value and sold for $4.9 million, resulting in income of $0.2 million. At September 30, 2011, there were no loans held for sale under this arrangement.

During the first nine months of 2010, commercial and commercial real estate loans held for investment of $3.2 million were reclassified to loans held for sale at the lower of cost or fair value and sold for $3.4 million, resulting in a recovery of $0.2 million on the loans transferred. At September 30, 2010, there were no loans held for sale under this arrangement.

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NOTE 8 FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES

Old National s finance receivables consist primarily of loans made to consumers and commercial clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. Most of Old National s lending activity occurs within the Company s principal geographic markets of Indiana, Illinois and Kentucky. Old National has no concentration of commercial loans in any single industry exceeding 10% of its portfolio.

The composition of loans by lending classification was as follows:

(dollars in thousands)	**September 30, 2011**	December 31, 2010
Commercial (1)	**$ 1,246,289**	$ 1,211,399
Commercial real estate:		
Construction	**50,116**	101,016
Other	**1,078,258**	841,379
Residential real estate	**865,951**	664,705
Consumer credit:		
Heloc	**245,686**	248,293
Auto	**487,983**	497,102
Other	**165,777**	179,557
Covered loans	**711,266**	
Total loans	**4,851,326**	3,743,451
Allowance for loan losses	**(65,219)**	(72,309)
Allowance for loan losses covered loans	**(303)**	
Net loans	**$ 4,785,804**	$ 3,671,142

(1) Includes direct finance leases of $87.0 million at September 30, 2011 and $106.1 million at December 31, 2010.

The risk characteristics of each loan portfolio segment are as follows:

Commercial

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate

These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing Old National s commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, Old National avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

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Construction

Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from Old National until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Residential and Consumer

With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, Old National establishes a maximum loan-to-value ratio and generally requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Portfolio loans, or loans Old National intends to hold for investment purposes, are carried at the principal balance outstanding, net of earned interest, purchase premiums or discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the principal balances of loans outstanding.

Allowance for loan losses

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses incurred in the loan portfolio. Management s evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, historical loss experience, and assessments of the impact of current economic conditions on the portfolio.

The allowance is increased through a provision charged to operating expense. Loans deemed to be uncollectible are charged to the allowance. Recoveries of loans previously charged-off are added to the allowance.

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Old National s activity in the allowance for loan losses for the three months ended September 30, 2011 and 2010, excluding covered loans, is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2011						
Allowance for loan losses:						
Beginning balance	$ 26,029	$ 32,490	$ 8,558	$ 3,112		$ 70,189
Charge-offs	(2,175)	(2,834)	(2,161)	(367)		(7,537)
Recoveries	878	305	1,400	66		2,649
Provision	(864)	315	130	337		(82)
Ending balance	$ 23,868	$ 30,276	$ 7,927	$ 3,148		$ 65,219

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2010						
Allowance for loan losses:						
Beginning balance	$ 28,559	$ 27,267	$ 12,877	$ 3,160		$ 71,863
Charge-offs	(797)	(2,708)	(4,435)	(248)		(8,188)
Recoveries	79	444	1,541	10		2,074
Provision	(932)	4,423	2,983	(74)		6,400
Ending balance	$ 26,909	$ 29,426	$ 12,966	$ 2,848		$ 72,149

Old National s activity in the allowance for loan losses for the nine months ended September 30, 2011 and 2010, excluding covered loans, is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2011						
Allowance for loan losses:						
Beginning balance	$ 26,204	$ 32,654	$ 11,142	$ 2,309		$ 72,309
Charge-offs	(7,344)	(5,815)	(8,014)	(1,540)		(22,713)
Recoveries	3,013	1,289	4,726	158		9,186
Provision	1,995	2,148	73	2,221		6,437
Ending balance	$ 23,868	$ 30,276	$ 7,927	$ 3,148		$ 65,219

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2010						
Allowance for loan losses:						

Beginning balance	$ 26,869	$ 27,138	$ 13,853	$ 1,688	$ 69,548
Charge-offs	(8,788)	(7,549)	(12,646)	(1,924)	(30,907)
Recoveries	3,537	1,589	4,634	67	9,827
Provision	5,291	8,248	7,125	3,017	23,681
Ending balance	$ 26,909	$ 29,426	$ 12,966	$ 2,848	$ 72,149

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The following table provides Old National s recorded investment in financing receivables, excluding covered loans, by portfolio segment at September 30, 2011 and December 31, 2010 and other information regarding the allowance:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
September 30, 2011						
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 8,803	$ 7,233				$ 16,036
Ending balance: collectively evaluated for impairment	$ 14,977	$ 22,752	$ 7,927	$ 3,148		$ 48,804
Ending balance: loans acquired with deteriorated credit quality	$ 88	$ 291				$ 379
Loans and leases outstanding:						
Ending balance	$ 1,246,289	$ 1,128,374	$ 899,446	$ 865,951		$ 4,140,060
Ending balance: individually evaluated for impairment	$ 34,296	$ 47,398				$ 81,694
Ending balance: collectively evaluated for impairment	$ 1,210,155	$ 1,057,039	$ 899,307	$ 865,755		$ 4,032,256
Ending balance: loans acquired with deteriorated credit quality (1)	$ 1,838	$ 23,937	$ 139	$ 196		$ 26,110

(1) Includes $166.4 million of revolving credits not accounted for under ASC 310-30.

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
December 31, 2010						
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 6,063	$ 8,514				$ 14,577
Ending balance: collectively evaluated for impairment	$ 20,141	$ 24,140	$ 11,142	$ 2,309		$ 57,732
Loans and leases outstanding:						
Ending balance	$ 1,211,399	$ 942,395	$ 924,952	$ 664,705		$ 3,743,451
Ending balance: individually evaluated for impairment	$ 23,944	$ 29,377				$ 53,321

Ending balance: collectively evaluated for impairment	$ 1,187,455	$ 913,018	$ 924,952	$ 664,705	$ 3,690,130

Old National s management monitors the credit quality of its financing receivables in an on-going manner. Internally, management assigns a credit quality grade to each non-homogeneous commercial and commercial real estate loan in the portfolio. The primary determinants of the credit quality grade are based upon the reliability of the primary source of repayment and the past, present, and projected financial condition of the borrower. The credit quality rating also reflects current economic and industry conditions. Major factors used in determining the grade can vary based on the nature of the loan, but commonly include factors such as debt service coverage, internal cash flow, liquidity, leverage, operating performance, debt burden, FICO scores, occupancy, interest rate sensitivity, and expense burden. Old National uses the following definitions for risk ratings:

Criticized. Special mention loans that have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution s credit position at some future date.

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Classified Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Classified Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Pass rated loans are those loans that are other than criticized, classified substandard or classified doubtful.

The risk category of loans, excluding covered loans, by class of loans is as follows:

(dollars in thousands)

Corporate Credit Exposure by Internally Assigned Grade	Commercial September 30, 2011	Commercial December 31, 2010	Commercial Real Estate-Construction September 30, 2011	Commercial Real Estate-Construction December 31, 2010	Commercial Real Estate-Other September 30, 2011	Commercial Real Estate-Other December 31, 2010
Grade:						
Pass	$ 1,110,329	$ 1,105,382	$ 18,233	$ 77,241	$ 936,709	$ 729,243
Criticized	45,244	38,629	13,998	16,223	39,274	29,161
Classified substandard	52,978	41,899	11,653	7,552	35,790	52,559
Classified doubtful	37,738	25,489	6,232		66,485	30,416
Total	$ 1,246,289	$ 1,211,399	$ 50,116	$ 101,016	$ 1,078,258	$ 841,379

Old National considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, Old National also evaluates credit quality based on the aging status of the loan and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of September 30, 2011 and December 31, 2010, excluding covered loans:

September 30, 2011		Consumer		
(dollars in thousands)	Heloc	Auto	Other	Residential
Performing	$ 244,458	$ 485,834	$ 164,052	$ 856,717
Nonperforming	1,228	2,149	1,725	9,234
	$ 245,686	$ 487,983	$ 165,777	$ 865,951

December 31, 2010		Consumer		
(dollars in thousands)	Heloc	Auto	Other	Residential
Performing	$ 246,390	$ 494,771	$ 177,470	$ 655,986
Nonperforming	1,903	2,331	2,087	8,719
	$ 248,293	$ 497,102	$ 179,557	$ 664,705

Large commercial credits are subject to individual evaluation for impairment. Retail credits and other small balance credits that are part of a homogeneous group are not tested for individual impairment. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Old National s policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status. For the nine months ended September 30, 2011 and 2010, the average balance of impaired loans was $66.4 million and $50.1 million, respectively, for which no interest income was recorded. No additional funds are committed to be advanced in connection with these impaired loans.

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The following table shows Old National s impaired loans, excluding covered loans, that are individually evaluated as of September 30, 2011 and December 31, 2010. Of the loans purchased without FDIC loss share coverage, only those that have experienced subsequent impairment since the date acquired are included in the table below. Purchased loans of $6.3 million migrated to classified-doubtful during the third quarter of 2011.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
September 30, 2011			
With no related allowance recorded:			
Commercial	$ 15,409	$ 20,699	$
Commercial Real Estate Construction			
Commercial Real Estate Other	13,033	19,621	
With an allowance recorded:			
Commercial	18,887	19,817	8,803
Commercial Real Estate Construction			
Commercial Real Estate Other	34,365	37,743	7,233
Total Commercial	$ 81,694	$ 97,880	$ 16,036
December 31, 2010			
With no related allowance recorded:			
Commercial	$ 6,116	$ 8,001	$
Commercial Real Estate Construction			
Commercial Real Estate Other	10,554	16,781	
With an allowance recorded:			
Commercial	17,828	20,341	6,063
Commercial Real Estate Construction			
Commercial Real Estate Other	18,823	19,849	8,514
Total Commercial	$ 53,321	$ 64,972	$ 14,577

The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the three months ended September 30, 2011 are included in the tables below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
September 30, 2011		
With no related allowance recorded:		
Commercial	$ 12,081	$ 178
Commercial Real Estate Construction		
Commercial Real Estate Other	11,409	64
With an allowance recorded:		
Commercial	22,118	59
Commercial Real Estate Construction		
Commercial Real Estate Other	32,243	194

Total Commercial	$	77,851	$	495

(1) The Company does not record interest on nonaccrual loans until principal is recovered.

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The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the nine months ended September 30, 2011 are included in the tables below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
September 30, 2011		
With no related allowance recorded:		
Commercial	$ 11,833	$ 268
Commercial Real Estate Construction		
Commercial Real Estate Other	10,713	169
With an allowance recorded:		
Commercial	17,103	145
Commercial Real Estate Construction		
Commercial Real Estate Other	26,780	328
Total Commercial	$ 66,429	$ 910

(1) The Company does not record interest on nonaccrual loans until principal is recovered.

A loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. Interest accrued during the current year on such loans is reversed against earnings. Interest accrued in the prior year, if any, is charged to the allowance for loan losses. Cash interest received on these loans is applied to the principal balance until the principal is recovered or until the loan returns to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for six months and future payments are reasonably assured.

Old National s past due financing receivables as of September 30, 2011 and December 31, 2010 are as follows:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Recorded Investment > 90 Days and Accruing	Nonaccrual	Total Past Due	Current
September 30, 2011						
Commercial	$ 2,459	$ 3,336	$ 408	$ 37,739	$ 43,942	$ 1,202,347
Commercial Real Estate:						
Construction		1,434		6,232	7,666	42,450
Other	1,185	859	490	66,485	69,019	1,009,239
Consumer:						
Heloc	423	166	9	1,228	1,826	243,860
Auto	5,054	900	153	2,149	8,256	479,727
Other	1,623	381	98	1,725	3,827	161,950
Residential	6,016	1,049		9,234	16,299	849,652
Covered loans	12,626	1,713	692	199,028	214,059	497,207
Total loans	$ 29,386	$ 9,838	$ 1,850	$ 323,820	$ 364,894	$ 4,486,432
December 31, 2010						
Commercial	$ 2,543	$ 583	$ 79	$ 25,488	$ 28,693	$ 1,182,706
Commercial Real Estate:						
Construction						101,016
Other	992	98		30,416	31,506	809,873
Consumer:						
Heloc	849	477	189	1,903	3,418	244,875
Auto	5,791	1,316	120	2,331	9,558	487,544
Other	1,129	972	184	2,088	4,373	175,184
Residential	9,126	1,589		8,719	19,434	645,271
Total	$ 20,430	$ 5,035	$ 572	$ 70,945	$ 96,982	$ 3,646,469

In the course of resolving nonperforming loans, Old National may choose to restructure the contractual terms of certain loans. The Company may attempt to work out an alternative payment schedule with the borrower in order to avoid foreclosure actions. Any loans that are modified are reviewed by Old National to identify if a troubled debt restructuring (TDR) has occurred, which is when for economic or legal reasons related to a borrower s financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and could include reduction of the stated interest rate other than normal market rate adjustments, extension of maturity dates, or reduction of principal balance or accrued interest. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit Old National by increasing the ultimate probability of collection.

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 September 30, 2011, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled $9.4 million, consisting of

$3.9 million of commercial loans and $5.5 million of commercial real estate loans, and had specific allocations of allowance for loan losses of $2.4 million. At December 31, 2010, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled $4.8 million, consisting of $3.8 million of commercial loans and $1.0 million of commercial real estate loans, and had specific allocations of allowance for loan losses of $1.6 million.

If the Company is unable to resolve a nonperforming loan issue the credit will be charged off when it is apparent there will be a loss. For large commercial type loans, each relationship is individually analyzed for evidence of apparent loss based on quantitative benchmarks or subjectively based upon certain events or particular circumstances. It is Old National s policy to charge off small commercial loans scored through our small business credit center with contractual balances under $250,000 that have been placed on nonaccrual status or became ninety days or more delinquent, without regard to the collateral position. For residential and consumer loans, a charge off is recorded at the time foreclosure is initiated or when the loan becomes 120 to 180 days past due.

Old National has loan participations, which qualify as participating interests, with other financial institutions. At September 30, 2011, these loans totaled $217.9 million, of which $126.6 million had been sold to other financial institutions and $91.3 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder, involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder, all cash flows are divided among the participating interest holders in proportion to each holder s share of ownership and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

Purchased Impaired Loans (non-covered loans)

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. In determining the estimated fair value of purchased loans, management considers a number of factors including the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, net present value of cash flows expected to be received, among others. Purchased loans are accounted for in accordance with guidance for certain loans acquired in a transfer, when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows will result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

Old National has purchased loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. Of these acquired credit impaired loans, $166.4 million in carrying balances did not meet the criteria to be accounted for under the guidance of ASC 310-30 as they were revolving lines of credit, thus these lines have not been included in the following table. For the loans that meet the criteria of ASC 310-30 treatment, the carrying amount is as follows:

(dollars in thousands)	September 30, 2011
Commercial	$ 1,946
Commercial real estate	24,750
Consumer	47,095
Residential	398
Outstanding balance	$ 74,189
Carrying amount, net of allowance of $1,188	$ 73,001

The accretable difference on purchased loans acquired in a business combination is the difference between the expected cash flows and the net present value of expected cash flows with such difference accreted into earnings using the effective yield method over the term of the loans. The accretable difference that is expected to be accreted into future earnings of the Company totaled $25.5 million at the date of acquisition. Accretion of $10.0 million has been recorded as loan interest income through September 30, 2011.

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Accretable yield, or income expected to be collected, is as follows:

(dollars in thousands)		
Balance at January 1, 2011	$	
New loans purchased		25,520
Accretion of income		(10,006)
Reclassifications from (to) nonaccretable difference		18,851
Disposals/other adjustments		(134)
Balance at September 30, 2011	$	34,231

Included in Old National s allowance for loan losses is $1.2 million related to the purchased loans disclosed above for the first nine months of 2011. An immaterial amount of allowances for loan losses were reversed during the first nine months of 2011 related to these loans.

Purchased loans for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

(dollars in thousands)		September 30, 2011
Contractually required payments receivable of loans purchased during the year:		
Commercial	$	8,131
Commercial real estate		50,481
Consumer		57,009
Residential		907
	$	116,528
Cash flows expected to be collected at acquisition (January 1, 2011 & July 29, 2011)	$	108,567
Fair value of acquired loans at acquisition (January 1, 2011 & July 29, 2011)	$	95,330

Income is not recognized on certain purchased loans if Old National cannot reasonably estimate cash flows to be collected. Old National had no purchased loans for which it could not reasonably estimate cash flows to be collected.

NOTE 9 COVERED LOANS

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements. Covered loans were $711.3 million at September 30, 2011. The composition of covered loans by lending classification was as follows:

(dollars in thousands)		September 30, 2011
Commercial	$	154,251
Commercial real estate		367,758
Residential		50,726
Consumer		138,531
Covered loans		711,266
Allowance for loan losses		(303)
Covered loans, net	$	710,963

Loans were recorded at fair value in accordance with FASB ASC 805, Business Combinations. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC 820, exclusive of the loss share agreements with the Federal Deposit Insurance Corporation (FDIC). The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics and were treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan losses. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan s or pool s remaining life.

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Accretable yield, or income expected to be collected, is as follows:

(dollars in thousands)		
Balance at January 1, 2011	$	
New loans purchased		260,665
Accretion of income		(7,749)
Reclassifications from (to) nonaccretable difference		
Disposals/other adjustments		36
Balance at September 30, 2011	$	252,952

Because the FDIC will reimburse the Company for losses incurred on certain acquired loans, an indemnification asset (FDIC loss share receivable) is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The loss share agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. The fair value of the indemnification asset at September 30, 2011 was $168.1 million.

The loss share agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by FASB ASC 310, subsequent changes to the basis of the loss share agreements also follow that model. Deterioration in the credit quality of the loans (recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the loss share agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the loss share agreements, with the decrease being accreted into income over the same period or the life of the loss share agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the loss share agreements. Upon determination of an incurred loss the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding receivable is recorded until cash is received from the FDIC.

NOTE 10 OTHER REAL ESTATE OWNED

The following table shows the carrying amount for other real estate owned at September 30, 2011 and December 31, 2010:

(dollars in thousands)		September 30, 2011		December 31, 2010
Other real estate owned	$	9,390	$	5,591
Other real estate owned, covered		31,908		
Total other real estate owned	$	41,298	$	5,591

Covered OREO expenses and valuation write-downs are recorded in the noninterest expense section of the consolidated statements of income. Under the loss sharing agreements, the FDIC will reimburse the Company for 80% of expenses and valuation write-downs related to covered assets up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0%, and 80% of losses in excess of $467.2 million. The portion of these expenses that is reimbursable is recorded as the change in the FDIC indemnification asset in the noninterest income section of the consolidated statements of income.

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NOTE 11 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2011 and 2010:

(dollars in thousands)	Community Banking	Other	Total
Balance, January 1, 2011	**$ 128,011**	**$ 39,873**	**$ 167,884**
Goodwill acquired during the period	**97,209**	**892**	**98,101**
Balance, September 30, 2011	**$ 225,220**	**$ 40,765**	**$ 265,985**
Balance, January 1, 2010	$ 128,011	$ 39,873	$ 167,884
Goodwill acquired during the period			
Balance, September 30, 2010	$ 128,011	$ 39,873	$ 167,884

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2011 and determined that no impairment existed as of this date. Old National recorded $68.4 million of goodwill in the first quarter of 2011 associated with the acquisition of Monroe Bancorp, of which $67.5 million was allocated to the Community Banking segment and $0.9 million to the Other segment. Old National recorded $29.7 million of goodwill in the third quarter of 2011 associated with the acquisition of Integra Bank, all of which was allocated to the Community Banking segment.

The gross carrying amount and accumulated amortization of other intangible assets at September 30, 2011 and December 31, 2010 was as follows:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
September 30, 2011			
Amortized intangible assets:			
Core deposit	**$ 39,265**	**$ (18,539)**	**$ 20,726**
Customer business relationships	**25,611**	**(15,867)**	**9,744**
Customer trust relationships	**3,621**	**(334)**	**3,287**
Customer loan relationships	**4,413**	**(1,872)**	**2,541**
Total intangible assets	**$ 72,910**	**$ (36,612)**	**$ 36,298**
December 31, 2010			
Amortized intangible assets:			
Core deposit	$ 26,810	$ (14,646)	$ 12,164
Customer business relationships	25,753	(14,581)	11,172
Customer loan relationships	4,413	(1,571)	2,842
Total intangible assets	$ 56,976	$ (30,798)	$ 26,178

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 5 to 25 years. During the first quarter of 2011, Old National recorded $8.2 million of core deposit intangibles associated with the acquisition of Monroe Bancorp, which is included in the Community Banking segment. During the first quarter of 2011, Old National also recorded $2.3 million of customer relationship intangibles associated with the trust business of Monroe Bancorp, which is included in the Other segment. During the second quarter of 2011, Old National recorded $1.3 million of customer relationship intangibles associated with the trust business of Integra Wealth Management and Trust, which is included in the Other segment. During the third quarter of 2011, Old National recorded $4.3 million of core deposit intangibles associated with the acquisition of Integra Bank, which is included in the Community Banking segment. Total amortization expense associated with other intangible assets for the nine months ended September 30 was $5.9 million in 2011 and $4.6 million in 2010.

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Estimated amortization expense for future years is as follows:

(dollars in thousands)		
2011 remaining	$	2,224
2012		7,995
2013		6,724
2014		5,452
2015		4,372
Thereafter		9,531
Total	$	36,298

NOTE 12 SHORT-TERM BORROWINGS

The following table presents the distribution of Old National s short-term borrowings and related weighted-average interest rates as of September 30, 2011:

(dollars in thousands)	Federal Funds Purchased	Repurchase Agreements	Other Short-term Borrowings	Total
2011				
Outstanding at September 30, 2011	**$ 948**	**$ 328,720**	**$ 11,336**	**$ 341,004**
Average amount outstanding	**1,580**	**335,078**	**8,988**	**345,646**
Maximum amount outstanding at any month-end	**17,178**	**366,103**	**11,336**	
Weighted average interest rate:				
During nine months ended September 30, 2011	**0.03**%	**0.15**%	**0.14**%	**0.15**%
At September 30, 2011		**0.15**		**0.15**

Other Short-term Borrowings

As of September 30, 2011, Old National had $10.9 million of Treasury funds under the Treasury Tax and Loan Account program. These funds typically have a short duration, are collateralized and can be withdrawn by the Treasury Department at any time. At September 30, 2011, the effective interest rate on these funds was 0%. The remaining $0.4 million of short-term borrowings is a note payable to a life insurance company which was assumed as part of the Integra Bank acquisition. This note payable, which carries an effective interest rate of 7.26%, will mature in January 2012.

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NOTE 13 FINANCING ACTIVITIES

The following table summarizes Old National s and its subsidiaries other borrowings at September 30, 2011 and December 31, 2010:

(dollars in thousands)	September 30, 2011	December 31, 2010
Old National Bancorp:		
Junior subordinated debenture (variable rates of 2.12% to 3.42% and fixed rates of 6.52% to 7.15%) maturing July 2033 to June 2037	**$ 16,000**	$ 8,000
Subordinated notes (fixed rate of 10.00%) maturing June 2019	**13,000**	
ASC 815 fair value hedge and other basis adjustments	**(2,844)**	(36)
Old National Bank:		
Securities sold under agreements to repurchase (variable rate 3.05%) maturing October 2014	**50,000**	50,000
Federal Home Loan Bank advances (fixed rates 1.24% to 8.34% and variable rate 2.53%) maturing June 2012 to January 2023	**211,006**	211,696
Subordinated bank notes (fixed rates of 6.75%) maturing October 2011	**150,000**	150,000
Capital lease obligation	**4,273**	4,307
ASC 815 fair value hedge and other basis adjustments	**2,449**	(2,056)
Total other borrowings	**$ 443,884**	$ 421,911

Contractual maturities of other borrowings at September 30, 2011, were as follows:

(dollars in thousands)	
Due in 2011	$ 150,012
Due in 2012	688
Due in 2013	75,649
Due in 2014	92,560
Due in 2015	16,763
Thereafter	108,607
SFAS 133 fair value hedge and other basis adjustments	(395)
Total	$ 443,884

INTEGRA BANK ACQUISITION

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC assisted transaction. As of the acquisition date, there were $107.1 million of Federal Home Loan Bank advances and $85.8 million of structured repurchase agreements recorded at estimated fair value. All of the Federal Home Loan Bank advances and repurchase agreement were repaid during August 2011 and September 2011.

FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances had weighted-average rates of 3.30% and 3.32% at September 30, 2011, and December 31, 2010, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 153% of outstanding debt.

SUBORDINATED NOTES

In 2011, Old National acquired Monroe Bancorp. Included in the acquisition was $13 million of 10% subordinated notes. As shown in the table above, these subordinated notes mature June 2019. Old National may redeem the notes, in whole or in part, beginning June 30, 2012. According to capital guidelines, the portion of limited-life capital instruments that is includible in Tier 2 capital is limited within five years or less until maturity. As of September 30, 2011, $13 million of the subordinated notes qualified as Tier 2 Capital for regulatory purposes.

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SUBORDINATED BANK NOTES

Old National Bank s notes are issued under the global note program and are not obligations of, or guaranteed by, Old National Bancorp.

According to capital guidelines, the portion of limited-life capital instruments that is includible in Tier 2 capital is limited within five years or less until maturity. As of September 30, 2011, none of the subordinated bank notes qualified as Tier 2 Capital for regulatory purposes. As shown in the table above, these subordinated bank notes mature October 2011. Capital treatment ceased October 2010, or one year prior to the maturity date.

Subsequent to quarter-end, the subordinated debt was paid in full.

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.

ONB Capital Trust II issued $100 million in preferred securities in April 2002. Old National guaranteed the payment of distributions on the trust preferred securities issued by ONB Capital Trust II. The preferred securities had 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. On November 9, 2010, Old National s Board of Directors approved the redemption of the junior subordinated debentures. As a result of the redemption of the debentures, the trustee of ONB Capital Trust II redeemed all $100 million of the 8% trust preferred securities on December 15, 2010. The $3.0 million remaining balance of the unamortized issuance costs at the time of the redemption were expensed.

In 2007, Old National acquired St. Joseph Capital Trust I and St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust I and St. Joseph Capital Trust II. St. Joseph Capital Trust I issued $3.0 million in preferred securities in July 2003. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 305 basis points, payable quarterly and maturing on July 11, 2033. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust I. St. Joseph Capital Trust II issued $5.0 million in preferred securities in March 2005. The preferred securities had a cumulative annual distribution rate of 6.27% until March 2010 and now 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, at any time, may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities.

In 2011, Old National acquired Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II in conjunction with its acquisition of Monroe Bancorp. Old National guarantees the payment of distributions on the trust preferred securities issued by Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II. Monroe Bancorp Capital Trust I issued $3.0 million in preferred securities in July 2006. The preferred securities carry a fixed rate of interest of 7.15% until October 7, 2011 and thereafter a variable rate of interest priced at the three-month LIBOR plus 1.60%. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Capital Trust I. Monroe Bancorp Statutory Trust II issued $5.0 million in preferred securities in March 2007. The preferred securities carry a fixed rate of interest of 6.52% until June 15, 2012 and thereafter a variable rate of interest priced at the three-month LIBOR plus 1.60%. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Statutory Trust II. Old National, at any time, 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 October 7, 2011 (for debentures owned by Monroe Bancorp Capital Trust I) and on or after June 15, 2012 (for debentures owned by Monroe Bancorp Statutory Trust II), and in whole or in part following the occurrence and continuance of certain adverse federal income tax or capital treatment events.

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CAPITAL LEASE OBLIGATION

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

At September 30, 2011, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)		
2011 remaining	$	97
2012		390
2013		390
2014		410
2015		410
Thereafter		10,494
Total minimum lease payments		12,191
Less amounts representing interest		7,918
Present value of net minimum lease payments	$	4,273

NOTE 14 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 expects to contribute approximately $220 thousand to the Retirement Plan in 2011.

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 $125 thousand to cover benefit payments from the Restoration Plan during the first nine months of 2011. Old National expects to contribute an additional $30 thousand to cover benefit payments from the Restoration Plan during the remainder of 2011.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2011**	2010	**2011**	2010
Interest cost	**$ 525**	$ 498	**$ 1,575**	$ 1,492
Expected return on plan assets	**(676)**	(490)	**(2,028)**	(1,470)
Recognized actuarial loss	**689**	401	**2,067**	1,203
Settlement	**465**	350	**1,069**	350
Net periodic benefit cost	**$ 1,003**	$ 759	**$ 2,683**	$ 1,575

NOTE 15 STOCK-BASED COMPENSATION

During May 2008, shareholders approved the Company s 2008 Incentive Compensation Plan which authorizes up to a maximum of 1.0 million shares plus certain shares covered under the 1999 Equity Incentive Plan. At September 30, 2011, 2.5 million shares remained available for issuance. The granting of awards to key employees is typically in the form of restricted stock or options to purchase common shares of stock.

Stock Options

The Company did not grant any stock options during the first nine months of 2011. Old National recorded $61 thousand of stock based compensation expense, net of tax, during the first nine months of 2011 as compared to $119 thousand for the first nine months of 2010.

In connection with the acquisition of Monroe Bancorp on January 1, 2011, 0.3 million options for shares of Monroe Bancorp stock were converted to 0.3 million options for shares of Old National Bancorp stock. Old National recorded no incremental expense associated with the conversion of these options.

Restricted Stock Awards

The Company granted 121 thousand time-based restricted stock awards to certain key officers during 2011, with shares vesting in either eighteen or thirty-six month periods. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of September 30, 2011, unrecognized compensation expense was estimated to be $1.7 million for unvested restricted share awards.

Old National recorded expense of $0.7 million, net of tax benefit, during the first nine months of 2011, compared to expense of $0.6 million during the first nine months of 2010 related to the vesting of restricted share awards. Included in the first nine months of 2010 is the reversal of $0.1 million of expense associated with certain performance-based restricted stock grants.

During the third quarter of 2011, the Company modified the vesting eligibility of 10 thousand shares of restricted stock issued to an employee. As a result of that modification, the Company reversed $0.1 million for the quarter ended September 30, 2011. There were no restricted stock modifications during 2010.

Restricted Stock Units

The Company granted 159 thousand shares of performance based restricted stock units to certain key officers during 2011, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. In addition, certain of the restricted stock units are subject to relative performance factors which could increase or decrease the percentage of shares issued.

Old National recorded $0.8 million of stock based compensation expense, net of tax, during the first nine months of 2011. Old National recorded $0.3 million of stock based compensation expense, net of tax, during the first nine months of 2010. Included in the first nine months of 2011 is the reversal of $13 thousand of expense associated with certain performance-based restricted stock grants. Included in the first nine months of 2010 is the reversal of $0.2 million of expense associated with certain performance-based restricted stock grants.

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NOTE 16 INCOME TAXES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2011**	**2010**	**2011**	**2010**
Provision at statutory rate of 35%	**$ 8,695**	$ 4,776	**$ 24,058**	$ 13,185
Tax-exempt income	**(2,421)**	(2,416)	**(7,182)**	(7,749)
Reversal of portion of unrecognized tax benefits	**(623)**	(652)	**(623)**	(652)
State income taxes	**1,196**	228	**2,292**	475
Interim period effective rate adjustment	**888**		**89**	
Other, net	**310**	(187)	**(144)**	(77)
Income tax expense	**$ 8,045**	$ 1,749	**$ 18,490**	$ 5,182
Effective tax rate	**32.4%**	12.8%	**26.9%**	13.8%

In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at September 30, 2011 based on the current estimate of the effective annual rate.

For the three and nine months ended September 30, 2011, the effective tax rate was higher than the three and nine months ended September 30, 2010. The higher tax rate in the third quarter and nine months of 2011 is the result of an increase in pre-tax book income while tax-exempt income remained relatively stable.

No valuation allowance was recorded at September 30, 2011 and 2010 because, based on our current expectations, Old National believes that it will generate sufficient income in the future years to realize deferred tax assets.

Unrecognized Tax Benefits

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

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

(dollars in thousands)	**2011**	2010
Balance at January 1	**$ 4,553**	$ 8,500
Additions (reductions) based on tax positions related to the current year	**4**	(3,348)
Reductions due to statute of limitations expiring	**(413)**	(601)
Balance at September 30	**$ 4,144**	$ 4,551

Approximately $0.35 million of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods.

The Company reversed $0.62 million related to uncertain tax positions accounted for under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The positive $0.62 million income tax reversal relates to the 2007 statute of limitations expiring. The statute of limitations expired in the third quarter of 2011. As a result, the Company reversed a total of $0.62 million from its unrecognized tax benefit liability which includes $0.21 million of interest.

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NOTE 17 DERIVATIVE FINANCIAL INSTRUMENTS

As part of the Company s overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was $195.0 million at both September 30, 2011 and December 31, 2010, respectively. The September 30, 2011 balances consist of $95.0 million notional amount of receive-fixed interest rate swaps on certain of its FHLB advances and $100.0 million notional amount of receive-fixed interest rate swaps on certain commercial loans. The December 31, 2010 balances consist of $95.0 million notional amount of receive-fixed interest rate swaps on certain of its FHLB advances and $100.0 million notional amount of receive-fixed interest rate swaps on certain commercial loans. These hedges were entered into to manage both interest rate risk and asset sensitivity on the balance sheet. These derivative instruments are recognized on the balance sheet at their fair value.

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At September 30, 2011, the notional amount of the interest rate lock commitments and forward commitments were $8.7 million and $11.2 million, respectively. At December 31, 2010, the notional amount of the interest rate lock commitments and forward commitments were $7.7 million and $9.3 million, respectively. It is the Company s practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitment to fund the loans. All derivative instruments are recognized on the balance sheet at their fair value.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $457.9 million and $457.9 million, respectively, at September 30, 2011. Included in the notional amounts at September 30, 2011 is $67.7 million of customer derivative instruments assumed in the Integra acquisition. At December 31, 2010, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were $419.2 million and $419.2 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps, foreign exchange forward contracts and commodity swaps and options. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

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

	Asset Derivatives			
	September 30, 2011		December 31, 2010	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate contracts	Other assets	**$ 8,096**	Other assets	$ 4,766
Total derivatives designated as hedging instruments		**$ 8,096**		$ 4,766
Derivatives not designated as hedging instruments				
Interest rate contracts	Other assets	**$ 38,927**	Other assets	$ 28,269
Commodity contracts	Other assets		Other assets	132
Mortgage contracts	Other assets	**186**	Other assets	254
Total derivatives not designated as hedging instruments		**$ 39,113**		$ 28,655
Total derivative assets		**$ 47,209**		$ 33,421

	Liability Derivatives			
	September 30, 2011		December 31, 2010	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments				
Interest rate contracts	Other liabilities	**$ 39,599**	Other liabilities	$ 28,928
Commodity contracts	Other liabilities		Other liabilities	132
Total derivatives not designated as hedging instruments		**$ 39,599**		$ 29,060
Total derivative liabilities		**$ 39,599**		$ 29,060

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The effect of derivative instruments on the Consolidated Statement of Income for the three and nine months ended September 30, 2011 and 2010 are as follows:

(dollars in thousands)		Three months ended September 30, 2011	Three months ended September 30, 2010
Derivatives in Fair Value Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ 744**	$ 843
Interest rate contracts (2)	Other income / (expense)	**345**	238
Total		**$ 1,089**	$ 1,081
Derivatives in Cash Flow Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ 410**	$ 383
Total		**$ 410**	$ 383
Derivatives Not Designated as Hedging Instruments	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (3)	Other income / (expense)	**$ (196)**	$ 132
Mortgage contracts	Mortgage banking revenue	**(47)**	131
Total		**$ (243)**	$ 263

(dollars in thousands)		Nine months ended September 30, 2011	Nine months ended September 30, 2010
Derivatives in Fair Value Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ 2,205**	$ 2,750
Interest rate contracts (2)	Other income / (expense)	**714**	1,555
Total		**$ 2,919**	$ 4,305
Derivatives in	**Location of Gain or (Loss)**	**Amount of Gain or (Loss)**	

Cash Flow Hedging Relationships	**Recognized in Income on Derivative**	**Recognized in Income on Derivative**			
Interest rate contracts (1)	Interest income / (expense)	**$**	**1,197**	$	1,158
Total		**$**	**1,197**	$	1,158

Derivatives Not Designated as Hedging Instruments	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**			
Interest rate contracts (3)	Other income / (expense)	**$**	**(12)**	$	(169)
Mortgage contracts	Mortgage banking revenue		**(68)**		(93)
Total		**$**	**(80)**	$	(262)

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

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

(3) Includes the valuation differences between the customer and offsetting counterparty swaps.
See Note 21 to the consolidated financial statements.

NOTE 18 COMMITMENTS AND CONTINGENCIES

LITIGATION

In the normal course of business, Old National Bancorp and its subsidiaries have been named, from time to time, as defendants in various legal actions. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages.

Old National contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, Old National cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, or other relief, if any, might be. Subject to the foregoing, Old National believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of Old National, although the outcome of such matters could be material to Old National s operating results and cash flows for a particular future period, depending on, among other things, the level of Old National s revenues or income for such period.

In November 2002, several beneficiaries of certain trusts filed a complaint against Old National and Old National Trust Company in the United States District Court for the Western District of Kentucky relating to the administration of the trusts in 1997. The complaint, as amended, alleged that Old National (through a predecessor), as trustee, mismanaged termination of a lease between the trusts and a tenant mining company. The complaint seeks, among other relief, unspecified damages, (costs and expenses, including attorneys fees, and such other relief as the court might find just and proper.) On March 25, 2009, the Court granted summary judgment to Old National concluding that the plaintiffs do not have standing to sue Old National in this matter. The plaintiffs subsequently filed a motion to alter or amend the judgment with the Court. The Plaintiffs motion to alter or amend the judgment was granted by the Court on July 29, 2009, reversing the Court s March 25, 2009 Order as to standing. The July 29, 2009 Order permitted Old National to file a new motion for summary judgment with respect to issues that had not been resolved by the Court. On December 10, 2009, the Court granted Old National partial summary judgment and also granted a motion by Plaintiffs to amend their complaint. The Court s December 10, 2009 Order permitted Old National to file a new motion for summary judgment on the amended complaint. Old National filed its motion for summary judgment on January 22, 2010, which was granted in part and denied in part on August 6, 2010. Old National filed its fourth motion for summary judgment in April 2011 that has the potential to dispose of the case if granted by the Court. In addition, a mediation session was held in March 2011 and settlement discussions continued between Old National and the Plaintiffs. Settlement negotiations became meaningful in mid-August of 2011. Although Old National continues to believe that it has meritorious defenses to each of the claims in the lawsuit, given the risks and uncertainty of litigation Old National reached a tentative settlement with the plaintiffs in mid-September of 2011. As such, two million dollars was accrued in the third quarter of 2011 in anticipation of negotiating final settlement and full resolution of this matter during the fourth quarter of 2011.

In November 2010, Old National was named in a class action lawsuit, much like many other banks, challenging Old National Bank s checking account practices. The plaintiff seeks damages and other relief, including restitution. Old National believes it has meritorious defenses to the claims brought by the plaintiff. At this phase of the litigation, it is not possible for management of Old National to determine the probability of a material adverse outcome or reasonably estimate the amount of any loss. No class has yet been certified and discovery is ongoing.

LEASES

Old National rents certain premises and equipment under operating leases, which expire at various dates. Many of these leases require the payment of property taxes, insurance premiums, maintenance and other costs. In some cases, rentals are subject to increase in relation to a cost-of-living index.

In prior periods, Old National entered into sale leaseback transactions for four office buildings in downtown Evansville, Indiana and eighty-eight financial centers. The properties sold had a carrying value of $163.6 million. Old National received cash proceeds of approximately $287.4 million, net of selling costs, resulting in a gain of approximately $123.9 million. Approximately $119.5 million of the gain was deferred and is being recognized over the term of the leases. As of September 30, 2011, $25.9 million of the deferred gain had been recognized. The leases have original terms ranging from five to twenty-four years, and Old National has the right, at its option, to extend the term of certain of the leases for four additional successive terms of five years. Under the lease agreements, Old National is obligated to pay base rents of approximately $25.4 million per year.

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In March 2009, Old National acquired the Indiana retail branch banking network of Citizens Financial Group. The network included 65 leased locations. As of September 30, 2011, Old National had closed 24 of these locations and terminated the leases. The leases have terms of less than one year to ten years. Under the remaining lease agreements, Old National is obligated to pay a base rent of approximately $2.2 million per year.

In January 2011, Old National acquired Monroe Bancorp. Included in the acquisition are two leased branches, a leased operations center, five leased ATM locations and leased space in three retirement centers. The leased space in one of the retirement centers was closed in the second quarter of 2011. The leases have terms of one to five years. Under the lease agreements, Old National is obligated to pay a base rent of approximately $0.3 million per year.

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC assisted transaction. The physical branch locations and leases were not immediately acquired by Old National in the acquisition. Old National has an option, exercisable for 90 days following the closing of the acquisition, to acquire, at fair value, any bank premises that were owned by, and to assume any leases relating to bank premises held by Integra. Old National is currently reviewing the bank premises and related leases of Integra and currently expects to acquire 16 of the Integra facilities and leases. Rent expense of $1.1 million was recorded during the third quarter of 2011 related to these properties.

CREDIT-RELATED FINANCIAL INSTRUMENTS

In the normal course of business, Old National s banking affiliates have entered into various agreements to extend credit, including loan commitments of $1.196 billion and standby letters of credit of $80.6 million at September 30, 2011. At September 30, 2011, approximately $1.007 billion of the loan commitments had fixed rates and $189 million had floating rates, with the floating interest rates ranging from 2.0% to 19.8%. At December 31, 2010, loan commitments were $1.106 billion and standby letters of credit were $74.3 million. These commitments are not reflected in the consolidated financial statements. At September 30, 2011 and December 31, 2010, the balance of the allowance for unfunded loan commitments was $5.9 million and $3.8 million, respectively.

At September 30, 2011 and December 31, 2010, Old National had credit extensions of $24.6 million and $25.7 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National s clients. At September 30, 2011 and December 31, 2010, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $18.2 million and $20.2 million, respectively. Old National did not provide collateral for the remaining credit extensions.

NOTE 19 FINANCIAL GUARANTEES

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At September 30, 2011, the notional amount of standby letters of credit was $80.6 million, which represents the maximum amount of future funding requirements, and the carrying value was $0.5 million. At December 31, 2010, the notional amount of standby letters of credit was $74.3 million, which represents the maximum amount of future funding requirements, and the carrying value was $0.5 million.

During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of $9.0 million at September 30, 2011.

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NOTE 20 SEGMENT INFORMATION

Old National operates in two operating segments: community banking and treasury. The community banking segment serves customers in both urban and rural markets providing a wide range of financial services including commercial, real estate and consumer loans; lease financing; checking, savings, time deposits and other depository accounts; cash management services; and debit cards and other electronically accessed banking services and Internet banking. Treasury manages investments, wholesale funding, interest rate risk, liquidity and leverage for Old National. Additionally, treasury provides other miscellaneous capital markets products for its corporate banking clients. Other is comprised of the parent company and several smaller business units including insurance, wealth management and brokerage. It includes unallocated corporate overhead and intersegment revenue and expense eliminations.

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

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

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

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

(dollars in thousands)	Community Banking	Treasury	Other	Total
Three months ended September 30, 2011				
Net interest income	**$ 75,292**	**$ (11,803)**	**$ 9,103**	**$ 72,592**
Provision for loan losses	**(1,258)**		**1,176**	**(82)**
Noninterest income	**28,800**	**4,756**	**13,770**	**47,326**
Noninterest expense	**60,828**	**8,840**	**25,490**	**95,158**
Income (loss) before income taxes	**44,522**	**(15,887)**	**(3,793)**	**24,842**
Total assets	**5,156,030**	**3,569,790**	**206,880**	**8,932,700**
Three months ended September 30, 2010				
Net interest income	$ 63,402	$ (8,305)	$ (929)	$ 54,168
Provision for loan losses	6,400			6,400
Noninterest income	22,119	4,506	15,354	41,979
Noninterest expense	57,298	3,358	15,446	76,102
Income (loss) before income taxes	21,823	(7,157)	(1,021)	13,645
Total assets	3,828,941	3,567,870	109,303	7,506,114
Nine months ended September 30, 2011				
Net interest income	**$ 218,356**	**$ (30,009)**	**$ 7,931**	**$ 196,278**
Provision for loan losses	**5,261**		**1,176**	**6,437**
Noninterest income	**80,989**	**8,816**	**43,931**	**133,736**
Noninterest expense	**192,071**	**10,617**	**52,153**	**254,841**
Income (loss) before income taxes	**102,013**	**(31,810)**	**(1,467)**	**68,736**
Total assets	**5,156,030**	**3,569,790**	**206,880**	**8,932,700**
Nine months ended September 30, 2010				
Net interest income	$ 187,215	$ (19,984)	$ (2,792)	$ 164,439
Provision for loan losses	23,706		(25)	23,681
Noninterest income	66,345	13,139	48,461	127,945
Noninterest expense	176,081	7,603	47,349	231,033
Income (loss) before income taxes	53,773	(14,448)	(1,655)	37,670
Total assets	3,828,941	3,567,870	109,303	7,506,114

Included in net interest income for the three and nine months ended September 30, 2011 in the Community Banking segment is approximately $21.0 million and $38.7 million, respectively, associated with the acquisition of Monroe Bancorp and Integra Bank. The decrease in provision for loan losses is primarily attributable to the changing portfolio mix and improved risk profile. Noninterest expense for the three and nine months ended September 30, 2011 includes $16.0 million and $31.0 million, respectively, of costs associated with the addition of Monroe Bancorp and Integra Bank. Included in income before income taxes for the three and nine months ended September 30, 2011 is $10.6 million and $15.0 million, respectively, associated with the addition of Monroe Bancorp and Integra Bank.

NOTE 21 FAIR VALUE

FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

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

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

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

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

Trading securities: The fair value for trading securities is determined by quoted market prices (Level 1).

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

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

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

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

		Fair Value Measurements at September 30, 2011 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Trading securities	**$ 2,794**	**$ 2,794**	**$**	**$**
Investment securities available-for-sale:				
U.S. Treasury	**65,951**	**65,951**		
U.S. Government-sponsored entities and agencies	**180,934**		**180,934**	
Mortgage-backed securities Agency	**1,346,534**		**1,346,534**	
Mortgage-backed securities Non-agency	**95,051**		**95,051**	
States and political subdivisions	**391,202**		**391,202**	
Pooled trust preferred securities	**7,530**			**7,530**
Other securities	**165,887**		**165,887**	
Residential loans held for sale	**4,710**		**4,710**	
Derivative assets	**47,209**		**47,209**	
Financial Liabilities				
Derivative liabilities	**39,599**		**39,599**	

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There were no significant transfers into or out of Level 1, Level 2 or Level 3 assets or liabilities during the nine months ended September 30, 2011.

		Fair Value Measurements at December 31, 2010 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				