OLD NATIONAL BANCORP /IN/
Form 10-Q
May 06, 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 March 31, 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 94,734,000 shares outstanding at March 31, 2011.

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OLD NATIONAL BANCORP
CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	March 31, 2011 (unaudited)	December 31, 2010	March 31, 2010 (unaudited)
Assets			
Cash and due from banks	**$ 127,948**	$ 107,368	$ 121,775
Money market and other interest-earning investments	**285,030**	144,184	258,385
Total cash and cash equivalents	**412,978**	251,552	380,160
Trading securities at fair value	**3,861**		
Investment securities available-for-sale, at fair value			
U.S. Treasury	**62,754**	62,550	51,218
U.S. Government-sponsored entities and agencies	**373,546**	315,133	857,966
Mortgage-backed securities	**1,101,875**	1,071,252	891,473
States and political subdivisions	**342,179**	348,924	559,719
Other securities	**170,942**	162,363	159,650
Total investment securities available-for-sale	**2,051,296**	1,960,222	2,520,026
Investment securities held-to-maturity, at amortized cost (fair value $599,936, $625,643 and $458,070 respectively)	**607,272**	638,210	450,036
Federal Home Loan Bank stock, at cost	**34,260**	31,937	36,090
Residential loans held for sale, at fair value	**3,144**	3,819	4,009
Finance leases held for sale			52,225
Loans:			
Commercial	**1,274,312**	1,211,399	1,225,999
Commercial real estate	**1,218,415**	942,395	1,041,449
Residential real estate	**779,764**	664,705	403,007
Consumer credit, net of unearned income	**918,265**	924,952	1,044,488
Total loans	**4,190,756**	3,743,451	3,714,943
Allowance for loan losses	**(72,749)**	(72,309)	(72,098)
Net loans	**4,118,007**	3,671,142	3,642,845
Premises and equipment, net	**66,729**	48,775	53,923
Accrued interest receivable	**42,311**	42,971	44,583
Goodwill	**236,309**	167,884	167,884
Other intangible assets	**34,738**	26,178	30,686
Company-owned life insurance	**244,543**	226,192	224,540
Other assets	**229,862**	195,010	211,243
Total assets	**$ 8,085,310**	$ 7,263,892	$ 7,818,250
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 1,421,424**	$ 1,276,024	$ 1,179,809

Interest-bearing:			
NOW	**1,448,002**	1,297,443	1,232,450
Savings	**1,192,046**	1,079,376	1,045,233
Money market	**353,950**	334,825	381,903
Time	**1,644,507**	1,475,257	1,852,097
Total deposits	**6,059,929**	5,462,925	5,691,492
Short-term borrowings	**374,259**	298,232	357,983
Other borrowings	**439,566**	421,911	700,383
Accrued expenses and other liabilities	**227,541**	202,019	212,872
Total liabilities	**7,101,295**	6,385,087	6,962,730
Shareholders Equity			
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding			
Common stock, $1 stated value, 150,000 shares authorized, 94,734, 87,183 and 87,161 shares issued and outstanding, respectively	**94,734**	87,183	87,161
Capital surplus	**831,990**	748,873	746,932
Retained earnings	**53,821**	44,018	34,204
Accumulated other comprehensive income (loss), net of tax	**3,470**	(1,269)	(12,777)
Total shareholders equity	**984,015**	878,805	855,520
Total liabilities and shareholders equity	**$ 8,085,310**	$ 7,263,892	$ 7,818,250

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

OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars and shares in thousands, except per share data)	Three Months Ended March 31, 2011	2010
Interest Income		
Loans including fees:		
Taxable	**$ 50,305**	$ 44,907
Nontaxable	**2,322**	2,180
Investment securities, available-for-sale:		
Taxable	**13,658**	20,796
Nontaxable	**3,521**	4,856
Investment securities, held-to-maturity, taxable	**6,412**	4,417
Money market and other interest-earning investments	**99**	186
Total interest income	**76,317**	77,342
Interest Expense		
Deposits	**10,003**	13,936
Short-term borrowings	**144**	249
Other borrowings	**4,803**	8,040
Total interest expense	**14,950**	22,225
Net interest income	**61,367**	55,117
Provision for loan losses	**3,312**	9,281
Net interest income after provision for loan losses	**58,055**	45,836
Noninterest Income		
Wealth management fees	**5,100**	4,287
Service charges on deposit accounts	**11,550**	11,946
ATM fees	**5,891**	5,527
Mortgage banking revenue	**952**	489
Insurance premiums and commissions	**10,570**	10,205
Investment product fees	**2,594**	2,053
Company-owned life insurance	**1,172**	845
Net securities gains	**1,499**	3,503
Total other-than-temporary impairment losses	**(299)**	(1,638)
Loss recognized in other comprehensive income		1,133
Impairment losses recognized in earnings	**(299)**	(505)
Gain on derivatives	**332**	621
Gain on sale leaseback transactions	**1,636**	1,637
Other income	**1,824**	2,384
Total noninterest income	**42,821**	42,992

Noninterest Expense				
Salaries and employee benefits		**44,521**		42,444
Occupancy		**12,302**		12,240
Equipment		**2,997**		2,796
Marketing		**1,317**		1,362
Data processing		**6,065**		5,515
Communication		**2,334**		2,687
Professional fees		**2,423**		1,701
Loan expense		**1,087**		908
Supplies		**613**		780
Loss on extinguishment of debt				22
FDIC assessment		**2,191**		2,447
Amortization of intangibles		**1,924**		1,622
Other expense		**2,151**		2,536
Total noninterest expense		**79,925**		77,060
Income before income taxes		**20,951**		11,768
Income tax expense		**4,518**		1,699
Net income	**$**	**16,433**	$	10,069
Net income per common share basic	**$**	**0.17**	$	0.12
Net income per common share diluted		**0.17**		0.12
Weighted average number of common shares outstanding-basic		**94,433**		86,752
Weighted average number of common shares outstanding-diluted		**94,670**		86,797
Dividends per common share	**$**	**0.07**	$	0.07

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

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			10,069		10,069	$ 10,069
Other comprehensive income (1)						
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				7,036	7,036	7,036
Transferred securities, net of tax				(110)	(110)	(110)
Reclassification adjustment on cash flows hedges, net of tax				423	423	423
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax				240	240	240
Total comprehensive income						$ 17,658
Dividends common stock			(6,082)		(6,082)	
Common stock repurchased	(41)	(438)			(479)	
Stock based compensation expense		576			576	
Stock activity under incentive comp plans	20	19	(18)		21	
Balance, March 31, 2010	$ 87,161	$ 746,932	$ 34,204	$ (12,777)	$ 855,520	
Balance, December 31, 2010	**$ 87,183**	**$ 748,873**	**$ 44,018**	**$ (1,269)**	**$ 878,805**	
Comprehensive income						
Net income			**16,433**		**16,433**	**$ 16,433**
Other comprehensive income (1)						
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				**4,641**	**4,641**	**4,641**
Transferred securities, net of tax				**(296)**	**(296)**	**(296)**
Reclassification adjustment on cash flows hedges, net of tax				**(147)**	**(147)**	**(147)**
Net loss, settlement cost and amortization of net (gain) loss on				**541**	**541**	**541**

defined benefit pension plans, net of tax						
Total comprehensive income						$ 21,172
Acquisition Monroe Bancorp	**7,575**	**82,495**			**90,070**	
Dividends common stock			**(6,630)**		**(6,630)**	
Common stock issued	**5**	**51**			**56**	
Common stock repurchased	**(32)**	**(299)**			**(331)**	
Stock based compensation expense		**777**			**777**	
Stock activity under incentive comp plans	**3**	**93**			**96**	
Balance, March 31, 2011	**$ 94,734**	**$ 831,990**	**$ 53,821**	**$ 3,470**	**$ 984,015**	

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

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Three Months Ended March 31, 2011	2010
Cash Flows From Operating Activities		
Net income	**$ 16,433**	$ 10,069
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**2,555**	2,615
Amortization and impairment of other intangible assets	**1,924**	1,621
Net premium amortization on investment securities	**2,006**	1,056
Restricted stock expense	**739**	513
Stock option expense	**38**	63
Provision for loan losses	**3,312**	9,281
Net securities gains	**(1,499)**	(3,503)
Impairment on available-for-sale securities	**299**	505
Gain on sale leasebacks	**(1,636)**	(1,637)
Gain on derivatives	**(332)**	(621)
Net gains on sales and write-downs of loans and other assets	**(286)**	(551)
Loss on extinguishment of debt		22
(Increase) decrease in cash surrender value of company owned life insurance	**(1,145)**	112
Residential real estate loans originated for sale	**(21,757)**	(18,898)
Proceeds from sale of residential real estate loans	**29,336**	33,004
Decrease in interest receivable	**2,563**	4,757
Decrease in other assets	**2,461**	10,575
Increase (decrease) in accrued expenses and other liabilities	**21,988**	(12,907)
Total adjustments	**40,566**	26,007
Net cash flows provided by operating activities	**56,999**	36,076
Cash Flows From Investing Activities		
Cash and cash equivalents of acquired bank	**83,604**	
Purchases of investment securities available-for-sale	**(141,503)**	(216,540)
Purchases of investment securities held-to-maturity		(65,141)
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**144,367**	162,858
Proceeds from sales of investment securities available-for-sale	**54,356**	34,891
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**36,108**	9,821
Proceeds from sale of loans	**4,624**	2,753
Net principal collected from (loans made to) customers	**(7,780)**	114,094
Proceeds from sale of premises and equipment and other assets	**168**	12
Purchases of premises and equipment	**(712)**	(4,143)
Net cash flows provided by investing activities	**173,232**	38,605

Cash Flows From Financing Activities				
Net increase (decrease) in deposits and short-term borrowings:				
Noninterest-bearing demand deposits		**4,517**		(8,534)
Savings, NOW and money market deposits		**33,296**		(48,005)
Time deposits		**(94,870)**		(155,457)
Short-term borrowings		**13,498**		26,839
Payments for maturities on other borrowings		**(98)**		(91)
Payments related to retirement of debt		**(18,333)**		
Cash dividends paid on common stock		**(6,630)**		(6,082)
Common stock repurchased		**(331)**		(479)
Proceeds from exercise of stock options, including tax benefit		**90**		12
Common stock issued		**56**		
Net cash flows used in financing activities		**(68,805)**		(191,797)
Net increase (decrease) in cash and cash equivalents		**161,426**		(117,116)
Cash and cash equivalents at beginning of period		**251,552**		497,276
Cash and cash equivalents at end of period	**$**	**412,978**	$	380,160
Supplemental cash flow information:				
Total interest paid	**$**	**12,724**	$	20,738
Total taxes paid (net of refunds)	**$**		$	(5,125)

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

OLD NATIONAL BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (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 March 31, 2011 and 2010, and December 31, 2010, and the results of its operations for the three months ended March 31, 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.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

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

Old National has loan participations, which qualify as participating interests, with other financial institutions. At March 31, 2011, these loans totaled $96.9 million, of which $48.9 million had been sold to other financial institutions and $48.0 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder, involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder, all cash flows are divided among the participating interest holders in proportion to each holder s share of ownership and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

FASB ASC 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. See Note 3 to the consolidated financial statements for the impact on the Company of adopting this new guidance.

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 becomes effective for the Company for interim or annual reporting periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

NOTE 3 ACQUISITIONS

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 purchase 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 preliminary purchase price for the Monroe acquisition is allocated as follows (in thousands):

Cash and cash equivalents	$	83,604
Investment securities		153,594
Loans		453,348
Premises and equipment		19,738
Accrued interest receivable		1,903
Company-owned life insurance		17,206
Other assets		41,535
Deposits		(653,813)
Short-term borrowings		(62,529)
Other borrowings		(37,352)
Accrued expenses and other liabilities		(6,074)
Net tangible assets acquired		11,160
Definite-lived intangible assets acquired		10,485
Goodwill		68,425
Total estimated purchase price	$	90,070

Prior to the end of the 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 segment, as described in Note 18 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 segment, as described in Note 18 of these consolidated financial statement footnotes.

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

Pro Forma Results

Monroe contributed revenue of $10.5 million and net income of $2.6 million to actual consolidated results during the first quarter of 2011.

The following schedule includes consolidated statements of income data for the un-audited pro forma results for the periods ended March 31, 2011 and 2010 as if the Monroe acquisition had occurred as of the beginning of the periods presented after giving effect to certain adjustments. The un-audited pro forma information is provided for illustrative purposes only and is not indicative of the results of operations or financial condition that would have been achieved if the Monroe acquisition would have taken place at the beginning of the periods presented and should not be taken as indicative of the Company s future consolidated results of operations or financial condition.

	Three Months Ended March 31,	
(dollars in thousands)	**2011**	**2010**
Net interest income	**$ 59,781**	$ 63,247
Other non-interest income	**42,821**	45,379
Total revenue	**102,602**	108,626
Provision expense	**3,312**	9,281
Other non-interest expense	**76,349**	84,994
Income before income taxes	**22,941**	14,351
Income tax expense	**5,292**	1,655
Net income	**$ 17,649**	$ 12,696
Diluted earnings per share	**$ 0.19**	**$ 0.13**

No provision expense was included in either period for Monroe. In accordance with accounting for business combinations, there was no allowance brought forward on any of the January 1, 2011 acquired loans, as the credit losses evident in the loans were included in the determiniation of the fair value of the loans at the date of acquistion. 2011 supplemental pro forma earnings were adjusted to exclude $3,531 of acquisition and integration-related costs incurred during the first quarter of 2011. A tax rate of 38.87% was used to adjust tax provision expense for this income statement impact. 2010 supplemental pro forma earnings were adjusted to include these charges.

Subsequent Event

On April 11, 2011, Old National Bancorp s wholly owned trust subsidiary, American National Trust and Investment Management Company d/b/a Old National Trust Company (ONTC), announced that it entered into an Agreement and Plan of Merger with Integra Bank pursuant to which ONTC will acquire the trust business of Integra, which currently has approximately $386.8 million assets under management. ONTC will pay Integra $1.25 million in an all cash transaction and anticipates acquisition-related costs will be approximately $0.1 million. Subject to regulatory approval and the satisfaction of closing conditions, the transaction is expected to close by June 30, 2011. The two companies

also entered into a servicing agreement whereby Old National Wealth Management advisors immediately began serving Integra wealth management and trust clients.

NOTE 4 NET INCOME PER SHARE

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

(dollars and shares in thousands, except per share data)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Basic Earnings Per Share		
Net income	**$ 16,433**	$ 10,069
Weighted average common shares outstanding	**94,433**	86,752
Basic Earnings Per Share	**$ 0.17**	$ 0.12
Diluted Earnings Per Share		
Net income	**$ 16,433**	$ 10,069
Weighted average common shares outstanding	**94,433**	86,752
Effect of dilutive securities:		
Restricted stock (1)	**208**	38
Stock options (2)	**29**	7
Weighted average shares outstanding	**94,670**	86,797
Diluted Earnings Per Share	**$ 0.17**	$ 0.12

(1) 88 and 315 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share at March 31, 2011 and 2010, respectively, because the effect would be antidulitive.

(2) Options to purchase 6,246 shares and 6,018 shares outstanding at March 31, 2011 and 2010, respectively, were not included in the computation of net income per diluted share because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidulitive.

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NOTE 5 COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and unrealized gains and losses on cash flow hedges and changes in funded status of pension plans which are also recognized as separate components of equity. Following is a summary of other comprehensive income for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
(dollars in thousands)	**2011**	**2010**
Net income	**$ 16,433**	$ 10,069
Other comprehensive income		
Change in securities available for sale:		
Unrealized holding gains arising during the period	**8,523**	16,108
Reclassification for securities transferred to held-to-maturity		
Reclassification adjustment for securities gains realized in income	**(1,499)**	(3,503)
Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income		(1,133)
Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income	**299**	505
Income tax effect	**(2,682)**	(4,941)
Change in securities held-to-maturity:		
Fair value adjustment for securities transferred from available-for-sale		
Amortization of fair value previously recognized into accumulated other comprehensive income	**(493)**	(184)
Income tax effect	**197**	74
Cash flow hedges:		
Net unrealized derivative gains (losses) on cash flow hedges	**(318)**	632
Reclassification adjustment on cash flow hedges	**72**	72
Income tax effect	**99**	(281)
Defined benefit pension plans:		
Amortization of net loss recognized in income	**903**	401
Income tax effect	**(362)**	(161)
Total other comprehensive income	**4,739**	7,589
Comprehensive income	**$ 21,172**	$ 17,658

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The following tables summarize the changes within each classification of accumulated other comprehensive income (AOCI) for the three months ended March 31, 2011 and 2010:

(dollars in thousands)	AOCI at December 31, 2010	Other Comprehensive Income	AOCI at March 31, 2011
Unrealized gains on available-for-sale securities	**$ 31,962**	**$ 4,641**	**$ 36,603**
Unrealized losses on securities for which other-than-temporary-impairment has been recognized	**(28,173)**		**(28,173)**
Unrealized gains (losses) on held-to-maturity securities	**5,667**	**(296)**	**5,371**
Unrecognized gain (loss) on cash flow hedges	**846**	**(147)**	**699**
Defined benefit pension plans	**(11,571)**	**541**	**(11,030)**
Accumulated other comprehensive income (loss)	**$ (1,269)**	**$ 4,739**	**$ 3,470**

(dollars in thousands)	AOCI at December 31, 2009	Other Comprehensive Income	AOCI at March 31, 2010
Unrealized gains on available-for-sale securities	$ 19,789	$ 7,708	$ 27,497
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	(110)	702
Unrecognized gain on cash flow hedges	187	423	610
Defined benefit pension plans	(13,653)	240	(13,413)
Accumulated other comprehensive income (loss)	$ (20,366)	$ 7,589	$ (12,777)

NOTE 6 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at March 31, 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
March 31, 2011				
Available-for-sale				
U.S. Treasury	**$ 62,371**	**$ 387**	**$ (4)**	**$ 62,754**
U.S. Government-sponsored entities and agencies	**373,829**	**1,447**	**(1,730)**	**373,546**
Mortgage-backed securities Agency	**972,161**	**19,313**	**(1,723)**	**989,751**
Mortgage-backed securities Non-agency	**113,616**	**981**	**(2,473)**	**112,124**
States and political subdivisions	**332,889**	**10,718**	**(1,428)**	**342,179**
Pooled trust preferrred securities	**27,360**		**(18,054)**	**9,306**
Other securities	**155,367**	**7,665**	**(1,396)**	**161,636**
Total available-for-sale securities	**$ 2,037,593**	**$ 40,511**	**$ (26,808)**	**$ 2,051,296**
Held-to-maturity				
U.S. Government-sponsored entities and agencies	**$ 276,735**	**$ 2,811**	**$ (2,546)**	**$ 277,000**
Mortgage-backed securities Agency	**106,082**	**2,576**	**(186)**	**108,472**
States and political subdivisions	**217,136**	**101**	**(9,965)**	**207,272**
Other securities	**7,319**		**(127)**	**7,192**
Total held-to-maturity securities	**$ 607,272**	**$ 5,488**	**$ (12,824)**	**$ 599,936**
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.

	March 31, 2011		Weighted
(dollars in thousands)	Amortized Cost	Fair Value	Average Yield
Maturity			
Available-for-sale			
Within one year	$ 90,784	$ 92,167	4.03%
One to five years	1,151,619	1,170,261	2.92
Five to ten years	205,476	210,812	4.10
Beyond ten years	589,714	578,056	4.20
Total	$ 2,037,593	$ 2,051,296	3.46%
Held-to-maturity			
Within one year	$ 4,384	$ 4,257	1.83%
One to five years	110,873	113,238	3.59
Five to ten years	12,532	12,145	4.05
Beyond ten years	479,483	470,296	3.87
Total	$ 607,272	$ 599,936	3.80%

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The following table summarizes the investment securities with unrealized losses at March 31, 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
March 31, 2011						
Available-for-Sale						
U.S. Treasury	$ 10,970	$ (4)	$	$	$ 10,970	$ (4)
U.S. Government-sponsored entities and agencies	183,790	(1,730)			183,790	(1,730)
Mortgage-backed securities Agency	361,106	(1,723)	207		361,313	(1,723)
Mortgage-backed securities - Non-agency	1		66,706	(2,473)	66,707	(2,473)
States and political subdivisions	56,532	(1,428)			56,532	(1,428)
Pooled trust preferrred securities			9,306	(18,054)	9,306	(18,054)
Other securities	12,431	(109)	6,771	(1,287)	19,202	(1,396)
Total available-for-sale	$ 624,830	$ (4,994)	$ 82,990	$ (21,814)	$ 707,820	$ (26,808)
Held-to-Maturity						
U.S. Government-sponsored entities and agencies	$ 112,505	$ (2,546)	$	$	$ 112,505	$ (2,546)
Mortgage-backed securities Agency	62,028	(186)			62,028	(186)
States and political subdivisions	186,048	(9,965)			186,048	(9,965)
Other securities			217	(127)	217	(127)
Total held-to-maturity	$ 360,581	$ (12,697)	$ 217	$ (127)	$ 360,798	$ (12,824)
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 $149.2 million and $128.0 million for the three months ended March 31, 2011 and 2010, respectively. Gains of $2.4 million and $3.5 million were realized on these sales during 2011 and 2010, respectively, and offsetting losses of $1.0 million were realized on these sales during 2011. Also included in net securities gains for the first quarter of 2011 is $49 thousand of gains associated with the trading securities and other-than-temporary impairment charges related to credit loss on two non-agency mortgage-backed securities in the amount of $0.3 million, described below. Impacting earnings in the first quarter of 2010 were other-than-temporary impairment charges related to credit loss on six non-agency mortgage-backed securities in the amount of $0.5 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 $3.9 million at March 31, 2011.

During the second quarter of 2010, approximately $143.8 million of municipal securities were transferred from the available-for-sale portfolio to the held-to-maturity portfolio at fair value. The $9.4 million unrealized holding gain at the date of transfer shall continue to be reported as a separate component of shareholders equity and will be amortized over the remaining life of the securities as an adjustment of yield.

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

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

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

As of March 31, 2011, Old National s security portfolio consisted of 1,051 securities, 246 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company s non-agency mortgage-backed and pooled trust preferred securities, as discussed below:

Non-agency Mortgage-backed Securities

At March 31, 2011, the Company s securities portfolio contained 14 non-agency collateralized mortgage obligations with a fair value of $112.1 million which had net unrealized losses of approximately $1.5 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 March 31, 2011, seven of these securities were rated below investment grade with grades ranging from B- to CC. One of the seven securities is rated B- and has a fair value of $7.5 million, four of the securities are rated CCC with a fair value of $28.7 million and two of the securities are rated CC with a fair value of $25.18 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 $0.3 million of credit losses on two of these securities for the three months ended March 31, 2011. The fair value of these non-agency mortgage-backed securities remaining at March 31, 2011 was $61.2 million at March 31, 2011.

Based on an analysis of the underlying collateral, Old National recorded $0.5 million of credit losses on six non-agency mortgage-backed securities for the three months ended March 31, 2010. The fair value of these non-agency mortgage-backed securities was $40.1 million at March 31, 2010.

Pooled Trust Preferred Securities

At March 31, 2011, the Company s securities portfolio contained nine pooled trust preferred securities with a fair value of $9.3 million and unrealized losses of $18.1 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 $5.1 million with unrealized losses of $8.1 million at March 31, 2011. These securities were rated A2 and A3 at inception, but at March 31, 2011, one security was rated BB, five securities were rated C and one security 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 three months ended March 31, 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 $4.2 million and unrealized losses of $10.0 million at March 31, 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 three months ended March 31, 2010, the seven securities subject to FASB ASC 325-10 accounted for $8.9 million of the unrealized loss in the pooled trust preferred securities category. Our analysis indicated no other-than-temporary-impairment on these securities.

The two pooled trust preferred securities which were not subject to FASB ASC 325-10 had a fair value of $6.4 million and unrealized losses of $7.7 million at March 31, 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.

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The table below summarizes the relevant characteristics of our nine pooled trust preferred securities as well as four single issuer trust preferred securities which are included with other securities in Note 6 to the consolidated financial statements. 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.
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 March 31, 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	$ 980	$ 304	$ (676)	$	19/39	40.1%	16.1%	0.0%
MM Community Funding IX	B-2	C	2,088	1,008	(1,080)		20/33	32.0%	17.9%	0.0%
Reg Div Funding 2004	B-2	D	4,221	862	(3,359)		25/45	43.1%	13.6%	0.0%
Pretsl XII	B-1	C	2,886	1,410	(1,476)		50/77	30.4%	7.7%	0.0%
Pretsl XV	B-1	C	1,695	500	(1,195)		51/72	35.4%	11.1%	0.0%
Reg Div Funding 2005	B-1	C	311	76	(235)		23/49	51.3%	32.3%	0.0%
MM Community Funding II	B	BB	992	941	(51)		5/8	4.7%	0.0%	16.4%
Pretsl XXVII LTD	B	CC	4,810	1,211	(3,599)		34/49	27.1%	23.5%	23.2%
Trapeza Ser 13A	A2A	CCC-	9,377	2,994	(6,383)		43/63	29.2%	22.7%	34.6%
			27,360	9,306	(18,054)					
Single Issuer trust preferred securities:										
First Empire Cap (M&T)		BBB-	954	1,016	62					
First Empire Cap (M&T)		BBB-	2,902	3,048	146					
Fleet Cap Tr V (BOA)		BB+	3,353	2,664	(689)					
JP Morgan Chase Cap XIII		BBB+	4,705	4,106	(599)					
			11,914	10,834	(1,080)					
Total			$ 39,274	$ 20,140	$ (19,134)	$				

(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 March 31, 2011 and the related credit losses recognized in earnings:

	Vintage	Lowest Credit Rating (1)	Amortized Cost	Amount of other-than-temporary-impairment recognized in earnings for the three months ended March 31, 2011
Non-agency mortgage-backed securities:				
FHASI Ser 4	2007	CC	$ 21,415	$ 202
RFMSI Ser S10	2006	CC	4,263	97
			$ 25,678	299
Total other-than-temporary-impairment recognized in earnings				$ 299

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

(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 March 31, 2011 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 March 31, 2011	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009	Life-to date
Non-agency mortgage-backed securities:							
BAFC Ser 4	2007	CCC	$ 14,026	$	$ 79	$ 63	$ 142
CWALT Ser 73CB	2005	CCC	4,945		207	83	290
CWALT Ser 73CB	2005	CCC	5,721		427	182	609
CWHL 2006-10 (3)	2006				309	762	1,071
CWHL 2005-20	2005	B-	7,432		39	72	111
FHASI Ser 4	2007	CC	21,415	202	629	223	1,054
RFMSI Ser S9 (2)	2006				923	1,880	2,803
RFMSI Ser S10	2006	CC	4,263	97	76	249	422
RALI QS2 (2)	2006				278	739	1,017
RFMSI S1	2006	CCC	4,002		30	176	206

			61,804	299	2,997	4,429	7,725
Pooled trust preferred securities:							
TROPC	2003	C	980		444	3,517	3,961
MM Community Funding IX	2003	C	2,088		165	2,612	2,777
Reg Div Funding	2004	D	4,221		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
			12,181		930	20,366	21,296
Total other-than-temporary-impairment recognized in earnings				$ 299	$ 3,927	$ 24,795	$ 29,021

(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 March 31, 2011 and December 31, 2010, Old National had residential loans held for sale of $3.1 million and $3.8 million, respectively.

At December 31, 2009, Old National had finance leases held for sale of $55.3 million. During 2010, management decided to transfer leases from held for sale back to the loan portfolio due to decreased levels of loan production. The leases were transferred at the lower of cost or fair value. No losses were recorded in connection with the transfer. There were no finance leases held for sale at March 31, 2011 or December 31, 2010, respectively.

During the first three months of 2011, commercial and commercial real estate loans held for investment of $4.6 million were reclassified to loans held for sale at the lower of cost or fair value and sold for $4.6 million, resulting in no charge-off on the loans transferred. At March 31, 2011, there were no loans held for sale under this arrangement.

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

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)	**March 31, 2011**	December 31, 2010
Commercial (1)	**$ 1,274,312**	$ 1,211,399
Commercial real estate:		
Construction	**120,431**	101,016
Other	**1,097,984**	841,379
Residential real estate	**779,764**	664,705
Consumer credit:		
Heloc	**255,073**	248,293
Auto	**486,416**	497,102
Other	**176,776**	179,557
Subtotal	**4,190,756**	3,743,451
Allowance for loan losses	**(72,749)**	(72,309)
Net loans	**$ 4,118,007**	$ 3,671,142

(1) Includes direct finance leases of $99.3 million at March 31, 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.

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 PMI 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.

Old National s activity in the allowance for loan losses for the three months ended March 31, 2011 and 2010 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	(1,331)	(707)	(3,388)	(848)		(6,274)
Recoveries	833	668	1,858	43		3,402
Provision	1,484	(65)	668	1,225		3,312
Ending balance	$ 27,190	$ 32,550	$ 10,280	$ 2,729		$ 72,749

(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	(3,493)	(1,736)	(4,755)	(928)		(10,912)
Recoveries	2,250	292	1,620	19		4,181
Provision	2,138	3,022	3,249	872		9,281
Ending balance	$ 27,764	$ 28,716	$ 13,967	$ 1,651		$ 72,098

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

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
March 31, 2011						
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 8,670	$ 8,314				$ 16,984
Ending balance: collectively evaluated for impairment	$ 18,520	$ 24,236	$ 10,280	$ 2,729		$ 55,765
Loans and leases outstanding:						
Ending balance	$ 1,274,312	$ 1,218,415	$ 918,265	$ 779,764		$ 4,190,756
Ending balance: individually evaluated for impairment	$ 34,480	$ 69,541				$ 104,021
	$ 1,239,832	$ 1,148,874	$ 918,265	$ 779,764		$ 4,086,735

Ending balance: collectively evaluated for impairment												
Ending balance: loans acquired with deteriorated credit quality (1)	$	2,834	$	34,515	$	150	$	705			$	38,204

(1) Includes $2.3 million of revolving credits not accounted for under ASC 310-30.

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(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.

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, including loans acquired from Monroe Bancorp, by class of loans is as follows:

(dollars in thousands)						
Corporate Credit Exposure	Commercial		Commercial Real Estate- Construction		Commercial Real Estate- Other	
by Internally Assigned Grade	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
Grade:						

Pass	$ 1,152,524	$ 1,105,382	$ 92,250	$ 77,241	$ 924,890	$ 729,243
Criticized	39,933	38,629	17,806	16,223	58,042	29,161
Classified substandard	47,260	41,899	7,586	7,552	46,350	52,559
Classified doubtful	34,595	25,489	2,789		68,702	30,416
Total	$ 1,274,312	$ 1,211,399	$ 120,431	$ 101,016	$ 1,097,984	$ 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 March 31, 2011 and December 31, 2010:

March 31, 2011		Consumer		
(dollars in thousands)	Heloc	Auto	Other	Residential
Performing	$ 253,823	$ 484,231	$ 174,542	$ 770,075
Nonperforming	1,250	2,185	2,234	9,689
	$ 255,073	$ 486,416	$ 176,776	$ 779,764

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 three months ended March 31, 2011 and 2010, the average balance of impaired loans was $64.5 million and $49.6 million, respectively, for which no interest income was recorded. No additional funds are committed to be advanced in connection with impaired loans.

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The following table shows Old National s impaired loans that are individually evaluated as of March 31, 2011 and December 31, 2010. The table includes only purchased loans that have experienced subsequent impairment since the date acquired. There were no purchased loans included at March 31, 2011.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
March 31, 2011			
With no related allowance recorded:			
Commercial	$ 5,953	$ 7,822	$
Commercial Real Estate Construction			
Commercial Real Estate Other	8,735	13,322	
With an allowance recorded:			
Commercial	24,328	26,913	8,670
Commercial Real Estate Construction			
Commercial Real Estate Other	26,772	28,713	8,314
Total Commercial	65,788	76,770	16,984
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 and interest income recognized on impaired loans during the three months ended March 31, 2011 are included in the tables below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
March 31, 2011		
With no related allowance recorded:		
Commercial	$ 6,035	$
Commercial Real Estate Construction		
Commercial Real Estate Other	14,583	
With an allowance recorded:		
Commercial	21,078	89
Commercial Real Estate Construction		
Commercial Real Estate Other	22,798	187

Total Commercial	64,494	276

(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 March 31, 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
March 31, 2011						
Commercial	$ 3,374	$ 763	$ 313	$ 34,595	$ 39,045	$ 1,235,267
Commercial Real Estate:						
Construction	616			2,789	3,405	117,026
Other	2,997	628	117	68,702	72,444	1,025,540
Consumer:						
Heloc	577	135	130	1,250	2,092	252,981
Auto	4,538	496	84	2,185	7,303	479,113
Other	1,447	322	41	2,236	4,046	172,730
Residential	7,452	177		9,689	17,318	762,446
Total	$ 21,001	$ 2,521	$ 685	$ 121,446	$ 145,653	$ 4,045,103
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 March 31, 2011, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled $4.8 million, consisting of $3.6 million of commercial loans and $1.2 million of commercial real estate loans, and had specific allocations of

allowance for loan losses of $1.6 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.

Purchased Impaired 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, $2.3 million in carrying balances did not meet the criteria to be accounted for under the guidance of ASC 310-30. For the loans that meet the criteria of ASC 310-30 treatment, the carrying amount is as follows:

(dollars in thousands)	March 31, 2011
Commercial	$ 2,329
Commercial real estate	32,721
Consumer	150
Residential	705
Outstanding balance	$ 35,905
Carrying amount, net of allowance of $0	$ 35,905

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 $7.0 million at the date of acquisition. Accretion of $1.2 million has been recorded as loan interest income through March 31, 2011.

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

(dollars in thousands)	
Balance at January 1, 2011	$
New loans purchased	7,001
Accretion of income	(1,234)
Reclassifications from (to) nonaccretable difference	

Disposals/other adjustments		51
Balance at March 31, 2011	$	5,818

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For those purchased loans disclosed above, Old National established no allowance for loan losses during the first quarter of 2011. No allowances for loan losses were reversed during the first quarter of 2011 regarding 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)	March 31, 2011
Contractually required payments receivable of loans purchased during the year:	
Commercial	$ 11,428
Commercial real estate	67,007
Consumer	463
Residential	1,306
	$ 80,204
Cash flows expected to be collected at acquisition	$ 49,800
Fair value of acquired loans at acquisition	$ 42,798

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 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill by segment for the three months ended March 31, 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	**67,532**	**893**	**68,425**
Balance, March 31, 2011	**$ 195,543**	**$ 40,766**	**$ 236,309**
Balance, January 1, 2010	$ 128,011	$ 39,873	$ 167,884
Goodwill acquired during the period			
Balance, March 31, 2010	$ 128,011	$ 39,873	$ 167,884

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2010 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.

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

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
March 31, 2011			
Amortized intangible assets:			
Core deposit	**$ 34,975**	**$ (15,933)**	**$ 19,042**
Customer business relationships	**25,753**	**(15,029)**	**10,724**
Customer trust relationships	**2,320**	**(89)**	**2,231**
Customer loan relationships	**4,413**	**(1,672)**	**2,741**
Total intangible assets	**$ 67,461**	**$ (32,723)**	**$ 34,738**
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 7 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. Total amortization expense associated with other intangible assets for the three months ended March 31 was $1.9 million in 2011 and $1.6 million in 2010. Estimated amortization expense for future years is as follows:

(dollars in thousands)	
2011 remaining	$ 5,462
2012	6,503
2013	5,535
2014	4,566
2015	3,788
Thereafter	8,884
Total	$ 34,738

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NOTE 10 SHORT-TERM BORROWINGS

The following table presents the distribution of Old National s short-term borrowings and related weighted-average interest rates as of March 31, 2011:

(dollars in thousands)	Federal Funds Purchased	Repurchase Agreements	Other Short-term Borrowings	Total
2011				
Outstanding at March 31, 2011	**$ 488**	**$ 366,103**	**$ 7,668**	**$ 374,259**
Average amount outstanding	**2,304**	**359,666**	**8,873**	**370,843**
Maximum amount outstanding at any month-end	**17,178**	**366,103**	**8,855**	
Weighted average interest rate:				
During three months ended March 31, 2011	**0.07**%	**0.16**%	**0.09**%	**0.16**%
At March 31, 2011		**0.13**		**0.13**

Other Short-term Borrowings

Treasury Investment Program

As of March 31, 2011, Old National had $7.7 million of Treasury funds under the Treasury Tax and Loan Account program. These funds typically have a short duration, are collateralized and can be withdrawn by the Treasury Department at any time. At March 31, 2011, the effective interest rate on these funds was 0%.

NOTE 11 FINANCING ACTIVITIES

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

(dollars in thousands)	March 31, 2011	December 31, 2010
Old National Bancorp:		
Junior subordinated debenture (variable rates of 2.06% to 3.36% 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	**(2,455)**	(36)
Old National Bank:		
Securities sold under agreements to repurchase (variable rate 3.10%) maturing October 2014	**50,000**	50,000
Federal Home Loan Bank advances (fixed rates 1.24% to 8.34% and variable rate 2.58%) maturing June 2012 to January 2023	**211,610**	211,696
Subordinated bank notes (fixed rates of 6.75%) maturing October 2011	**150,000**	150,000
Capital lease obligation	**4,296**	4,307
ASC 815 fair value hedge and other basis adjustments	**(2,885)**	(2,056)
Total other borrowings	**$ 439,566**	$ 421,911

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Contractual maturities of other borrowings at March 31, 2011, were as follows:

(dollars in thousands)		
Due in 2011	$	150,035
Due in 2012		688
Due in 2013		75,918
Due in 2014		92,560
Due in 2015		16,763
Thereafter		108,942
SFAS 133 fair value hedge and other basis adjustments		(5,340)
Total	$	439,566

FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances had weighted-average rates of 3.32% at March 31, 2011, and December 31, 2010. These borrowings are collateralized by investment securities and residential real estate loans up to 150% 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 March 31, 2011, $13 million of the subordinated notes qualified as Tier 2 Capital for regulatory purposes.

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 March 31, 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.

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.

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 March 31, 2011, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)		
2011 remaining	$	292
2012		390
2013		390
2014		410
2015		410
Thereafter		10,494
Total minimum lease payments		12,386
Less amounts representing interest		8,090
Present value of net minimum lease payments	$	4,296

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NOTE 12 EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five years of employment. The freezing of the plan provides that future salary increases will not be considered. Old National s policy is to contribute at least the minimum funding requirement determined by the plan s actuary. Old National expects to contribute approximately $285 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 $56 thousand to cover benefit payments from the Restoration Plan during the first three months of 2011. Old National expects to contribute an additional $99 thousand to cover benefit payments from the Restoration Plan during the remainder of 2011.

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

	Three Months Ended March 31,	
(dollars in thousands)	**2011**	**2010**
Interest cost	**$ 525**	$ 497
Expected return on plan assets	**(676)**	(490)
Recognized actuarial loss	**689**	401
Settlement	**213**	
Net periodic benefit cost	**$ 751**	$ 408

NOTE 13 STOCK-BASED COMPENSATION

During May 2008, shareholders approved the Company s 2008 Incentive Compensation Plan which authorizes up to a maximum of 1.0 million shares plus certain shares covered under the 1999 Equity Incentive Plan. At March 31, 2011, 0.9 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 three months of 2011. Old National recorded $23 thousand of stock based compensation expense, net of tax, during the first three months of 2011 as compared to $41 thousand for the first three 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 116 thousand time-based restricted stock awards to certain key officers during 2011, with shares vesting at the end of a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of March 31, 2011, unrecognized compensation expense was estimated to be $2.6 million for unvested restricted share awards.

Old National recorded expense of $0.2 million, net of tax benefit, during the first three months of 2011, compared to expense of $0.2 million during the first three months of 2010 related to the vesting of restricted share awards. Included in the first three months of 2010 is the reversal of $0.1 million of expense associated with certain performance-based restricted stock grants.

Restricted Stock Units

The Company granted 156 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 $0.2 million of stock based compensation expense, net of tax, during the first three months of 2011. Old National recorded $0.2 million of stock based compensation expense, net of tax, during the first three months of 2010. Included in the first three months of 2011 is the reversal of $13 thousand of expense associated with certain performance-based restricted stock grants.

NOTE 14 INCOME TAXES

Following is a summary of the major items comprising the differences in taxes from continuing operations computed at the federal statutory rate and as recorded in the consolidated statement of income for the three months ended March 31:

	Three Months Ended March 31,	
(dollars in thousands)	**2011**	**2010**
Provision at statutory rate of 35%	**$ 7,333**	$ 4,119
Tax-exempt income	**(2,390)**	(2,661)
State income taxes	**394**	85
Interim period effective rate adjustment	**(796)**	
Other, net	**(23)**	156
Income tax expense (benefit)	**$ 4,518**	$ 1,699
Effective tax rate	**21.6%**	14.4%

In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at March 31, 2011 based on the current estimate of the effective annual rate.

For the three months ended March 31, 2011, the effective tax rate was higher than the three months ended March 31, 2010. The higher tax rate in the first three 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 March 31, 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	**2**	164
Balance at March 31	**$ 4,555**	$ 8,664

Approximately $0.76 million of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods.

NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS

As part of the Company s overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was $195.0 million at both March 31, 2011 and December 31, 2010, respectively. The March 31, 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 March 31, 2011, the notional amount of the interest rate lock commitments and forward commitments were $17.9 million and $18.1 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 $408.9 million and $408.9 million, respectively, at March 31, 2011. 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.

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

	Asset Derivatives			
	March 31, 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	**$ 3,507**	Other assets	$ 4,766
Total derivatives designated as hedging instruments		**$ 3,507**		$ 4,766
Derivatives not designated as hedging instruments				
Interest rate contracts	Other assets	**$ 24,530**	Other assets	$ 28,269
Commodity contracts	Other assets	**574**	Other assets	132
Foreign exchange contracts	Other assets		Other assets	
Mortgage contracts	Other assets	**309**	Other assets	254
Total derivatives not designated as hedging instruments		**$ 25,413**		$ 28,655
Total derivative assets		**$ 28,920**		$ 33,421

	Liability Derivatives			
	March 31, 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 liabilities	**$**	Other liabilities	$
Total derivatives designated as hedging instruments		**$**		$
Derivatives not designated as hedging instruments				
Interest rate contracts	Other liabilities	**$ 25,004**	Other liabilities	$ 28,928
Commodity contracts	Other liabilities	**574**	Other liabilities	132
Foreign exchange contracts	Other liabilities		Other liabilities	
Mortgage contracts	Other liabilities		Other liabilities	
Total derivatives not designated as hedging instruments		**$ 25,578**		$ 29,060
Total derivative liabilities		**$ 25,578**		$ 29,060

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The effect of derivative instruments on the Consolidated Statement of Income for the three months ended March 31, 2011 and 2010 are as follows:

(dollars in thousands)		Three months ended March 31, 2011	Three months ended March 31, 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)	**$ 752**	$ 1,041
Interest rate contracts (2)	Other income / (expense)	**147**	622
Total		**$ 899**	$ 1,663

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)	**$ 386**	$ 393
Total		**$ 386**	$ 393

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 (1)	Interest income / (expense)	**$**	$
Interest rate contracts (3)	Other income / (expense)	**185**	1
Mortgage contracts	Mortgage banking revenue	**56**	(186)
Total		**$ 241**	$ (185)

(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 19 to the consolidated financial statements.

NOTE 16 COMMITMENTS AND CONTINGENCIES

LITIGATION

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

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

In November 2002, several beneficiaries of certain trusts filed a complaint against Old National 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. The Court has calendared a trial date of February 13, 2012. 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 continue between Old National and the Plaintiffs. Old National continues to believe that it has meritorious defenses to each of the claims in the lawsuit and intends to continue to vigorously defend the lawsuit. There can be no assurance, however, that Old National will be successful. While discovery on damages is not complete, the Company does not believe its exposure to the Plaintiffs, if any, is material based on information it currently has available. As such, the Company has not recorded a liability relating to the lawsuit in its accompanying Consolidated Balance Sheets.

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, and has filed a motion to dismiss that is pending with the Court. 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.

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 March 31, 2011, $22.7 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.

In March 2009, Old National acquired the Indiana retail branch banking network of Citizens Financial Group. The network included 65 leased locations. As of March 31, 2011, Old National had closed 22 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 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.

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 $1.063 billion and standby letters of credit of $76.7 million at March 31, 2011. At March 31, 2011, approximately $966 million of the loan commitments had fixed rates and $97 million had floating rates, with the fixed interest rates ranging from 1% to 13.25%. 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 March 31, 2011 and December 31, 2010, the balance of the allowance for unfunded loan commitments was $3.1 million and $3.8 million, respectively.

At March 31, 2011 and December 31, 2010, Old National had credit extensions of $26.9 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 both March 31, 2011 and December 31, 2010, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $20.2 million, respectively. Old National did not provide collateral for the remaining credit extensions.

NOTE 17 FINANCIAL GUARANTEES

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with 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 March 31, 2011, the notional amount of standby letters of credit was $76.7 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 March 31, 2011.

NOTE 18 SEGMENT INFORMATION

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

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

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

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

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

(dollars in thousands)	Community Banking	Treasury	Other	Total
Three months ended March 31, 2011				
Net interest income	**$ 69,089**	**$ (7,171)**	**$ (551)**	**$ 61,367**
Provision for loan losses	**3,312**			**3,312**
Noninterest income	**22,016**	**2,427**	**18,378**	**42,821**
Noninterest expense	**62,177**	**1,414**	**16,334**	**79,925**
Income (loss) before income taxes	**25,616**	**(6,158)**	**1,493**	**20,951**
Total assets	**4,483,814**	**3,500,133**	**101,363**	**8,085,310**
Three months ended March 31, 2010				
Net interest income	$ 61,725	$ (5,688)	$ (920)	$ 55,117
Provision for loan losses	9,306		(25)	9,281
Noninterest income	21,537	4,236	17,219	42,992
Noninterest expense	60,028	1,281	15,751	77,060
Income (loss) before income taxes	13,928	(2,733)	573	11,768
Total assets	3,991,808	3,716,264	110,178	7,818,250

Included in net interest income for the three months ended March 31, 2011 in the Community Banking segment is approximately $8.1 million associated with the acquisition of Monroe Bancorp. The decrease in provision for loan losses is primarily attributable to a decrease in net charge-offs. Noninterest expense includes $7.9 million of costs associated with the addition of Monroe Bancorp. These costs were partially offset by our on-going cost containment initiatives.

NOTE 19 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.

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).

Deposits: The fair value of retail certificates of deposit is estimated by discounting future cash flows using rates currently offered for deposits with similar remaining maturities (Level 2).

Assets and liabilities measured at fair value 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 March 31, 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	$ 3,861	$ 3,861	$	$
Investment securities available-for-sale:				
U.S. Treasury	62,754	62,754		
U.S. Government-sponsored entities and agencies	373,546		373,546	
Mortgage-backed securities Agency	989,751		989,751	
Mortgage-backed securities Non-agency	112,124		112,124	
States and political subdivisions	342,179		342,179	
Pooled trust preferred securities	9,306			9,306
Other securities	161,636		161,636	
Residential loans held for sale	3,144		3,144	
Derivative assets	28,920		28,920	
Financial Liabilities				
Derivative liabilities	25,578		25,578	

There were no significant transfers into or out of Level 1, Level 2 or Level 3 assets or liabilities during the three months ended March 31, 2011.

(dollars in thousands)	Carrying Value	Fair Value Measurements at December 31, 2010 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Investment securities available-for-sale:				
U.S. Treasury	$ 62,550	$ 62,550	$	$
U.S. Government-sponsored entities and agencies	315,133		315,133	
Mortgage-backed securities Agency	944,446		944,446	
Mortgage-backed securities Non-agency	126,806		126,806	
States and political subdivisions	348,924		348,924	
Pooled trust preferred securities	8,400			8,400
Other securities	153,963		153,963	
Residential loans held for sale	3,819		3,819	
Derivative assets	34,082		34,082	
Financial Liabilities				
Derivative liabilities	29,721		29,721	

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2011:

(dollars in thousands)	Fair Value Measurements using Significant Unobservable Inputs (Level 3) Pooled Trust Preferred Securities Available-for-Sale
Beginning balance, January 1, 2011	$ 8,400
Accretion/(amortization) of discount or premium	(18)
Payments received	
Credit loss write-downs	
Increase/(decrease) in fair value of securities	924
Ending balance, March 31, 2011	$ 9,306

Included in the income statement are $18 thousand of expense included in interest income from the amortization of premiums on securities. The increase in fair value is reflected in the balance sheet as an increase in the fair value of

investment securities available-for sale, an increase in accumulated other comprehensive income, which is included in shareholders equity, and a decrease in other assets related to the tax impact.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2010:

(dollars in thousands)	Fair Value Measurements using Significant Unobservable Inputs (Level 3) Pooled Trust Preferred Securities Available-for-Sale
Beginning balance, January 1, 2010	$ 12,398
Accretion/(amortization) of discount or premium	(32)
Payments received	
Credit loss write-downs	
Increase/(decrease) in fair value of securities	(637)
Ending balance, March 31, 2010	$ 11,729

Included in the income statement are $32 thousand of expense included in interest income from the amortization of premiums on securities and no credit losses included in noninterest income. The decrease in fair value is reflected in the balance sheet as a decrease in the fair value of investment securities available-for sale, a decrease in accumulated other comprehensive income, which is included in shareholders equity, and an increase in other assets related to the tax impact.

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

		Fair Value Measurements at March 31, 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				
Impaired loans	$ 32,956			$ 32,956

Impaired commercial and commercial real estate loans, which are measured for impairment using the fair value of the collateral, had a principal amount of $49.9 million, with a valuation allowance of $17.0 million at March 31, 2011. Old National recorded $4.3 million of provision expense associated with these loans for the three months ended March 31, 2011.

Fair Value Measurements at December 31, 2010 Using	
Significant Other	Significant

(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Financial Assets				
Impaired loans	**$ 22,833**			**$ 22,833**

Impaired commercial and commercial real estate loans, which are measured for impairment using the fair value of the collateral, had a principal amount of $36.4 million, with a valuation allowance of $13.6 million at December 31, 2010. Old National recorded $7.1 million of provision expense associated with these loans in 2010.

Financial instruments recorded using fair value option

Under FASB ASC 825-10, the Company may elect to report most financial instruments and certain other items at fair value on an instrument-by instrument basis with changes in fair value reported in net income. After the initial adoption, the election is made at the acquisition of an eligible financial asset, financial liability or firm commitment or when certain specified reconsideration events occur. The fair value election may not be revoked once an election is made.

The Company has elected the fair value option for residential mortgage loans held for sale. For these loans, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on the financial assets (except any that are on nonaccrual status). None of these loans are 90 days or more past due, nor are any on nonaccrual status. Included in the income statement are $49 thousand and $83 thousand of interest income for residential loans held for sale for the three months ended March 31, 2011 and 2010, respectively.

Residential mortgage loans held for sale

Old National has elected the fair value option for newly originated conforming fixed-rate and adjustable-rate first mortgage loans held for sale. These loans are intended for sale and are hedged with derivative instruments. Old National has elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification. The fair value option was not elected for loans held for investment. As of March 31 2011, the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected is as follows. Accrued interest at period end is included in the fair value of the instruments.

(dollars in thousands)	**Aggregate Fair Value**	**Difference**	**Contractual Principal**
Residential loans held for sale	**$ 3,144**	**$ 73**	**$ 3,071**

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets carried at fair value for the three months ended March 31, 2011:

Changes in Fair Value for the Three Months ended March 31, 2011, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option

(dollars in thousands)	**Other Gains and (Losses)**	**Interest Income**	**Interest (Expense)**	**Total Changes in Fair Values Included in Current Period Earnings**
Residential loans held for sale	**$ 94**	**$**	**$ (1)**	**$ 93**

As of March 31, 2010, the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected was as follows. Accrued interest at period end is included in the fair value of the instruments.

(dollars in thousands)	**Aggregate Fair Value**	**Difference**	**Contractual Principal**
Residential loans held for sale	**$ 4,009**	**$ 61**	**$ 3,948**

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets carried at fair value for the three months ended March 31, 2010:

Changes in Fair Value for the Three Months ended March 31, 2010, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option

	Other Gains and	**Interest**	**Interest**	**Total Changes in Fair Values Included in Current Period**

(dollars in thousands)	**(Losses)**	**Income**	**(Expense)**	**Earnings**
Residential loans held for sale	**$ (223)**	**$**	**$**	**$ (223)**

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The carrying amounts and estimated fair values of financial instruments, not previously presented, at March 31, 2011 and December 31, 2010 are as follows:

(dollars in thousands)	Carrying Value	Fair Value
March 31, 2011		
Financial Assets		
Cash, due from banks, federal funds sold and money market investments	$ 412,978	$ 412,978
Investment securities held-to-maturity:		
U.S. Government-sponsored entities and agencies	276,735	277,000
Mortgage-backed securities Agency	106,082	108,472
State and political subdivisions	217,136	207,272
Other securities	7,319	7,192
Federal Home Loan Bank stock	34,260	34,260
Loans, net (including impaired loans):		
Commercial	1,247,122	1,280,685
Commercial real estate	1,185,865	1,238,052
Residential real estate	777,035	809,214
Consumer credit	907,985	959,597
Accrued interest receivable	42,311	42,311
Financial Liabilities		
Deposits:		
Noninterest-bearing demand deposits	$ 1,421,424	$ 1,421,424
NOW, savings and money market deposits	2,993,998	2,993,998
Time deposits	1,644,507	1,683,741
Short-term borrowings:		
Federal funds purchased	488	488
Repurchase agreements	366,103	366,104
Other short-term borrowings	7,668	7,668
Other borrowings:		
Junior subordinated debenture	16,000	13,349
Subordinated notes	13,000	13,549
Repurchase agreements	50,000	53,563
Federal Home Loan Bank advances	211,610	220,080
Subordinated bank notes	150,000	153,761
Capital lease obligation	4,296	5,178
Accrued interest payable	10,644	10,644
Standby letters of credit	535	535
Off-Balance Sheet Financial Instruments		
Commitments to extend credit	$	$ 1,472

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(dollars in thousands)	Carrying Value	Fair Value
December 31, 2010		
Financial Assets		
Cash, due from banks, federal funds sold and money market investments	$ 251,552	$ 251,552
Investment securities held-to-maturity:		
U.S. Government-sponsored entities and agencies	303,265	301,809
Mortgage-backed securities Agency	117,013	119,080
State and political subdivisions	217,381	204,379
Other securities	551	375
Federal Home Loan Bank stock	31,937	31,937
Loans, net (including impaired loans):		
Commercial	1,185,194	1,220,464
Commercial real estate	909,742	952,885
Residential real estate	662,396	710,865
Consumer credit	913,810	969,263
Accrued interest receivable	42,971	42,971
Financial Liabilities		
Deposits:		
Noninterest-bearing demand deposits	$ 1,276,024	$ 1,276,024
NOW, savings and money market deposits	2,711,644	2,711,644
Time deposits	1,475,257	1,520,093
Short-term borrowings:		
Federal funds purchased	1,663	1,663
Repurchase agreements	287,414	287,416
Other short-term borrowings	9,155	9,155
Other borrowings:		
Junior subordinated debenture	8,000	7,998
Repurchase agreements	50,000	54,104
Federal Home Loan Bank advances	211,696	220,531
Subordinated bank notes	150,000	154,420
Capital lease obligation	4,307	5,138
Accrued interest payable	7,860	7,860
Standby letters of credit	518	518
Off-Balance Sheet Financial Instruments		
Commitments to extend credit	$	$ 1,311

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

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

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

Federal Home Loan Bank Stock: Old National Bank is a member of the Federal Home Loan Bank system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. The carrying value of Federal Home Loan Bank stock approximates fair value based on the

redemption provisions of the Federal Home Loan Bank.

Finance leases held for sale: The fair value of leases held for sale is estimated using discounted future cash flows.
Loans: The fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.
Accrued interest receivable: The carrying amount approximates fair value.
Deposits: The fair value of noninterest-bearing demand deposits and savings, NOW and money market deposits is the amount payable as of the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using rates currently offered for deposits with similar remaining maturities.
Short-term borrowings: Federal funds purchased and other short-term borrowings generally have an original term to maturity of 30 days or less and, therefore, their carrying amount is a reasonable estimate of fair value. The fair value of securities sold under agreements to repurchase is estimated by discounting future cash flows using current interest rates.
Other borrowings: The fair value of medium-term notes, subordinated debt and senior bank notes is determined using market quotes. The fair value of FHLB advances is determined using quoted prices for new FHLB advances with similar risk characteristics. The fair value of other debt is determined using comparable security market prices or dealer quotes.
Standby letters of credit: Fair values for standby letters of credit are based on fees currently charged to enter into similar agreements. The fair value for standby letters of credit was recorded in Accrued expenses and other liabilities on the consolidated balance sheet in accordance with FASB ASC 460-10 (FIN 45).
Off-balance sheet financial instruments: Fair values for off-balance sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements. For further information regarding the amounts of these financial instruments, see Notes 16 and 17.

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PART I. FINANCIAL INFORMATION
ITEM 2.
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is an analysis of our results of operations for the three months ended March 31, 2011 and 2010, and financial condition as of March 31, 2011, compared to March 31, 2010, and December 31, 2010. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business that are based on estimates and involves certain risks and uncertainties. Therefore, future results could differ significantly from our current expectations and the related forward-looking statements.

EXECUTIVE SUMMARY

During the first quarter of 2011, net income available to common shareholders was $16.4 million, compared to $10.1 million for the period ending March 31, 2010. Diluted earnings per share available to common shareholders were $0.17 per share, compared to diluted earnings per share of $0.12 in the first quarter of 2010. The provision for loan losses was $3.3 million for the first quarter of 2011 compared to $9.3 million for the first quarter of 2010. Annualized, net charge-offs improved from 0.72% in the first quarter of 2010 to 0.27% of average loans in the first quarter of 2011.

On January 1, 2011, Old National acquired 100% of Monroe Bancorp (Monroe) in an all stock transaction. Monroe is headquartered in Bloomington, Indiana and has 15 banking centers. The acquisition strengthens Old National s 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. Further discussion of the Monroe acquisition is included in Note 3 to the consolidated financial statements.

In accordance with accounting for business combinations, the acquired assets and liabilities were recorded at their estimated fair value upon acquisition. The determination of the fair value of the loans resulted in a significant write-down in the value of certain loans, which was assigned to an accretable or nonaccretable balance, with the accretable balance being recognized as interest income over the remaining term of the loan. The accretion of the loan mark, along with other fair value adjustments, favorably impacted our net interest income by $3.7 million in the first quarter. The determination of fair value is based on cash flow expectations. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change. Changes in our cash flow expectations could impact net interest income. Any decline in expected cash flows is referred to as impairment and recorded as provision expense during the period. Improvement in cash flow expectations, once any previously recorded impairment is recaptured, would be recognized prospectively as an adjustment to the yield on the loans.

Overall credit quality remains well-controlled. Our allowance for loan losses at March 31, 2011, was $72.7 million, or 1.74% of total loans, compared to an allowance of $72.3 million, or 1.93% of total loans at December 31, 2010, and $72.1 million, or 1.94% of total loans at March 31, 2010. The ratio of allowance to non-performing loans decreased to 60% at March 31, 2011, compared to 102% at December 31, 2010. This change was driven in large part by the addition of $419.4 million of loans acquired as part of the Monroe acquisition. In accordance with accounting for business combinations, there was no allowance brought forward on any of the loans acquired from Monroe. Credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date and are generally represented by the nonaccretable balance.

Management continues to focus on expense management and remains committed to expense reduction and improving efficiency. Total non-interest expenses have increased $2.9 million year-over-year. Noninterest expenses for the first quarter of 2011 included $7.9 million of cost associated with Monroe, of which $3.5 million related to acquisition and integration costs. Full time equivalent employees declined 3.3% since March 31, 2010, despite the addition of 177 FTE associated with the Monroe Bancorp acquisition.

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Our balance sheet remains well positioned with regulatory capital ratios above well-capitalized levels and we continue to look at opportunities for franchise growth.

On April 11, 2011, Old National Bancorp s wholly owned trust subsidiary, American National Trust and Investment Management Company d/b/a Old National Trust Company (ONTC), announced that it entered into an Agreement and Plan of Merger with Integra Bank pursuant to which ONTC will acquire the trust business of Integra, which currently has approximately $386.8 million assets under management. ONTC will pay Integra $1.25 million in an all cash transaction and anticipates acquisition-related costs will be approximately $0.1 million. Subject to regulatory approval and the satisfaction of closing conditions, the transaction is expected to close by June 30, 2011 and will bring total assets under management to $4.4 billion. The two companies also entered into a servicing agreement whereby Old National Wealth Management advisors immediately began serving Integra wealth management and trust clients.

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,		%
(dollars in thousands)	2011	2010	Change
Income Statement Summary:			
Net interest income	**$ 61,367**	$ 55,117	11.3%
Provision for loan losses	**3,312**	9,281	(64.3)
Noninterest income	**42,821**	42,992	(0.4)
Noninterest expense	**79,925**	77,060	3.7
Other Data:			
Return on average common equity	**6.78%**	4.74%	
Efficiency ratio	**74.55**	75.68	
Tier 1 leverage ratio	**8.44**	9.44	
Net charge-offs to average loans	**0.27**	0.70	

Net Interest Income

Net interest income is our most significant component of earnings, comprising over 58% of revenues at March 31, 2011. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources and interest rate fluctuations. Other factors include prepayment risk on mortgage and investment-related assets and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Factors such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize our mix of assets and funding and our net interest income and margin.

Net interest income is the excess of interest received from earning assets over interest paid on interest-bearing liabilities. For analytical purposes, net interest income is also presented in the table that follows, adjusted to a taxable equivalent basis to reflect what our tax-exempt assets would need to yield in order to achieve the same after-tax yield as a taxable asset. We used the federal statutory tax rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations. This analysis portrays the income tax benefits associated in tax-exempt assets and helps to facilitate a comparison between taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully taxable equivalent basis. Therefore, management believes these measures provide useful information for both management and investors by allowing them to make peer comparisons.

	Three Months Ended March 31,	
(dollars in thousands)	**2011**	**2010**
Net interest income	**$ 61,367**	$ 55,117
Taxable equivalent adjustment	**3,020**	3,711
Net interest income taxable equivalent	**$ 64,387**	$ 58,828
Average earning assets	**$ 7,118,867**	$ 7,066,530
Net interest margin	**3.45%**	3.12%
Net interest margin fully taxable equivalent	**3.62%**	3.33%

Net interest income was $61.4 million for the three months ended March 31, 2011, up from the $55.1 million reported for the three months ended March 31, 2010. Taxable equivalent net interest income was $64.4 million for the three months ended March 31, 2011, up from the $58.8 million reported for the three months ended March 31, 2010. The net interest margin on a fully taxable equivalent basis was 3.62% for the three months ended March 31, 2011, compared to 3.33% for the three months ended March 31, 2010. The increase in both net interest income and net interest margin is primarily due to the acquisition of Monroe Bancorp on January 1, 2011 combined with a change in the mix of interest earning assets and interest-bearing liabilities. The decrease in the yield on interest earning assets was less than the decrease in the cost of interest-bearing liabilities. The yield on average earning assets decreased 13 basis points from 4.60% to 4.47%. The cost of interest-bearing liabilities decreased 49 basis points from 1.60% to 1.11%.

Average earning assets were $7.119 billion for the three months ended March 31, 2011, compared to $7.067 billion for the three months ended March 31, 2010, an increase of 0.7%, or $52.3 million. Included in average earning assets at March 31, 2011 is approximately $580.3 million from the Monroe Bancorp acquisition. Significantly affecting average earning assets at March 31, 2011 compared to March 31, 2010, was the increase in the size of the loan portfolio combined with decreases in the size of the investment portfolio and interest earning cash balances at the Federal Reserve. A $380.3 million increase in average loans was partially offset by a $233.8 million decrease in average investment securities and a $94.2 million decrease in interest earning cash balances. The increase in average loans is a result of the Monroe Bancorp acquisition. We adjusted the composition of the investment portfolio to manage the effective duration of the portfolio and reduce the leverage on the balance sheet as proceeds from principal and interest payments and securities sales were used to reduce wholesale funding. Commercial and commercial real estate loans continue to be affected by continued weak loan demand in our markets, more stringent loan underwriting standards and our desire to lower future potential credit risk by being cautious towards the real estate market. Year over year, the loan portfolio, which generally has an average yield higher than the investment portfolio, has increased as a percent of interest earning assets.

Also positively affecting margin was an increase in noninterest-bearing demand deposits combined with decreases in time deposits and other borrowings. In the first quarter of 2011, we prepaid $17.2 million of FHLB advances. During

2010, we prepaid $75.0 million of FHLB advances and $49.0 million of long-term repurchase agreements. In the second quarter of 2010, a senior unsecured note totaling $50.0 million matured. In the fourth quarter of 2010, we redeemed $100.0 million of 8.0% trust preferred securities. Year over year, time deposits and other borrowings, which have an average interest rate higher than other types of deposits, have decreased as a percent of total funding. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding.

Provision for Loan Losses

The provision for loan losses was $3.3 million for the three months ended March 31, 2011, compared to $9.3 million for the three months ended March 31, 2010. The lower provision in 2011 is primarily attributable to a decrease in net charge-offs.

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Noninterest Income

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products and insurance. Noninterest income for the three months ended March 31, 2011 was $42.8 million, a decrease of $0.2 million, or 0.4%, from the $43.0 million reported for the three months ended March 31, 2010.

Net securities gains were $1.2 million for the three months ended March 31, 2011, compared to net securities gains of $3.0 million for the three months ended March 31, 2010. Included in the first quarter of 2011 is a $0.3 million charge for other-than-temporary-impairment on two non-agency mortgage-backed securities. Included in the first quarter of 2010 is a $0.5 million charge for other-than-temporary-impairment on six non-agency mortgage-backed securities.

Wealth management fees were $5.1 million for the three months ended March 31, 2011 as compared to $4.3 million for the three months ended March 31, 2010. The increase was primarily due to the acquisition of Monroe Bancorp.

Service charges and overdraft fees on deposit accounts were $11.6 million for the three months ended March 31, 2011, compared to $11.9 million for the three months ended March 31, 2010. The decrease in revenue is primarily attributable to a decrease in fee income for overdrafts and returned items. Service charges and overdraft fees were negatively impacted by new regulatory requirements in the third quarter of 2010. The negative impact was partially mitigated with adjustments to our product pricing structure late in the third quarter of 2010.

Debit card and ATM fees were $5.9 million for the three months ended March 31, 2011, compared to $5.5 million for the three months ended March 31, 2010. The increase in debit card usage is primarily attributable to the Monroe Bancorp acquisition.

Mortgage banking revenue was $1.0 million for the three months ended March 31, 2011, compared to $0.5 million for the three months ended March 31, 2010. Mortgage fee revenue increased as a result of higher loan production and our decision to sell more loans to the secondary market.

Investment product fees increased $0.5 million, or 26.4%, for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 primarily as a result of increases in annuity fees and other investment fees.

Revenue from company-owned life insurance was $1.2 million for the three months ended March 31, 2011, compared to $0.8 million for the three months ended March 31, 2010. Approximately $159 thousand of the increase in revenue was as a result of the Monroe Bancorp acquisition. During the third quarter of 2008, the crediting rate formula for the 1997 company-owned life insurance policy was amended to adopt a more conservative position and improve the overall market to book value ratio. This change resulted in lower revenues from company-owned life insurance in 2009 and while revenues slowly improved in 2010 and should continue to improve in future years, we anticipate revenue will remain below 2008 levels in future years.

Fluctuations in the value of our derivatives resulted in a gain on derivatives of $0.3 million in the first quarter of 2011 as compared to a gain on derivatives of $0.6 million in the first quarter of 2010.

Other income decreased $0.6 million for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010. The decrease was primarily as a result of losses on sales of foreclosed properties.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2011, totaled $79.9 million, an increase of $2.9 million, or 3.7%, from the $77.1 million recorded for the three months ended March 31, 2010. The acquisition of Monroe Bancorp was the primary reason for the increase in noninterest expenses. Noninterest expense for Monroe Bancorp totaled $7.9 million, which includes approximately $3.5 million of acquisition and integration costs.

Salaries and benefits is the largest component of noninterest expense. For the three months ended March 31, 2011, salaries and benefits were $44.5 million compared to $42.4 million for the three months ended March 31, 2010. Included in the first quarter of 2011 is $4.2 million, including severance, of expense associated with the acquisition of the Monroe Bancorp, which occurred on January 1, 2011. Offsetting this increase was the effect of the reduction in the number of employees over the past twelve months and a $1.0 million decrease in profit sharing expense.

Data processing expense increased $0.6 million for the three months ended March 31 2011, compared to the three months ended March 31, 2010, primarily as a result of deconversion fees associated with the acquisition of Monroe Bancorp.

Professional fees increased $0.7 million for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010. The increase is primarily attributable to legal and other professional fees associated with the acquisition of Monroe Bancorp in the first quarter of 2011.

Loan expense increased $0.2 million, or 19.7%, for the three months ended March 31, 2011, compared to the three months ended March 31, 2010. The increase is primarily attributable to loan expense associated with the acquisition of Monroe Bancorp.

Supplies expense decreased $0.2 million, or 21.4%, for the three months ended March 31, 2011, compared to the three months ended March 31, 2010. The decrease is primarily attributable to our cost containment efforts.

For the three months ended March 31, 2011, FDIC assessment expense was $2.2 million compared to $2.4 million for the three months ended March 31, 2010. The decrease is primarily due to adjustments in the assessment rate. In the fourth quarter of 2009, the FDIC announced that it would require insured institutions to prepay their estimated 2010, 2011 and 2012 assessments in December 2009. As of March 31, 2011, our prepaid assessment was $23.8 million and will be expensed over the next two years as the actual FDIC assessments are determined. We anticipate that our future quarterly FDIC expense will be lower than the $2.2 million realized in the first quarter of 2011 due to the change in the FDIC assessment base and rate calculation as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The increase in the expense for amortization of intangibles is primarily due to the core deposit intangible and trust relationship intangible associated with the acquisition of Monroe Bancorp and subsequent amortization of these assets.

Other expense for the three months ended March 31, 2011, totaled $2.2 million, a decrease of $0.4 million compared to the three months ended March 31, 2010. The provision for unfunded commitments decreased $0.2 million for the first quarter of 2011 as compared to the first quarter of 2010. Included in the three months ended March 30, 2010 is approximately $0.1 million in filing fees for the common stock offering that occurred in late 2009.

Provision for Income Taxes

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was 21.6% for the three months ended March 31, 2011, compared to 14.4% for the three months ended March 31, 2010. In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at March 31, 2011 based on the current estimate of the effective annual rate. The tax rate increased in the first quarter of 2011 as a result of an increase in pre-tax book income while tax-exempt income remained relatively stable. See Note 14 to the consolidated financial statements for additional information.

FINANCIAL CONDITION

Overview

At March 31, 2011, our assets were $8.085 billion, a 3.4% increase compared to March 31, 2010 assets of $7.818 billion, and an increase of 11.3% compared to December 31, 2010 assets of $7.264 billion. The increase is primarily a result of the acquisition of Monroe Bancorp, which occurred on January 1, 2011. The increase in loan balances and interest earning cash balances over the past twelve months has more than offset the decrease in investment securities. We are continuing to reduce our reliance on higher cost deposits and wholesale funding. Year over year, time deposits and other borrowings, which have an average interest rate higher than other types of deposits, have decreased as a percent of total funding. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding.

Earning Assets

Our earning assets are comprised of investment securities, portfolio loans, loans held for sale, money market investments, interest earning accounts with the Federal Reserve and trading securities. Earning assets were $7.176 billion at March 31, 2011, an increase of 2.0% from March 31, 2010.

Investment Securities

We classify the majority of our investment securities as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we do have $106.1 million of 15- and 20-year fixed-rate mortgage pass-through securities, $276.7 million of U.S. government-sponsored entity and agency securities and $217.1 million of state and political subdivision securities in our held-to-maturity investment portfolio at March 31, 2011. During the second quarter of 2010, approximately $143.8 million of state and political subdivision securities were transferred from the available-for-sale portfolio to our held-to-maturity portfolio at fair value.

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 $3.9 million at March 31, 2011.

At March 31, 2011, the total investment securities portfolio was $2.697 billion compared to $3.006 billion at March 31, 2010, a decrease of $309.5 million or 10.3%. Investment securities increased $66.3 million compared to December 31, 2010, an increase of 2.5%. Investment securities represented 37.6% of earning assets at March 31, 2011, compared to 42.7% at March 31, 2010, and 40.3% at December 31, 2010. The increase in investment securities since December 31, 2010 is a result of the Monroe Bancorp acquisition. Included in the March 31, 2011 investment securities portfolio is approximately $139.4 million related to our acquisition of Monroe Bancorp. We adjusted the composition of the investment portfolio to manage the effective duration of the portfolio and reduce the leverage on the balance sheet as proceeds from principal and interest payments and cash flows from calls and maturities of securities were used to reduce wholesale funding. Stronger commercial loan demand in the future and management s efforts to deleverage the balance sheet could result in a reduction in the securities portfolio. As of March 31, 2011, management does not intend to sell any available-for-sale securities with an unrealized loss position.

The investment securities available-for-sale portfolio had net unrealized gains of $13.7 million at March 31, 2011, an increase of $14.7 million compared to net unrealized losses of $1.0 million at March 31, 2010, and an increase of $7.3 million compared to net unrealized gains of $6.4 million at December 31, 2010. A $0.3 million charge was recorded during the first three months of 2011 related to other-than-temporary-impairment on two non-agency mortgage-backed securities. A $3.9 million charge was recorded during full year 2010 related to other-than-temporary-impairment on three pooled trust preferred securities and ten non-agency mortgage-backed securities. See Note 5 to the consolidated financial statements for the impact of other-than-temporary-impairment in other comprehensive income and Note 6 to the consolidated financial statements for details on management s evaluation of securities for other-than-temporary-impairment.

The investment portfolio had an average duration of 4.25% at March 31, 2011, compared to 4.45% at March 31, 2010, and 4.23% at December 31, 2010. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. The annualized average yields on investment securities, on a taxable equivalent basis, were 3.71% for the three months ended March 31, 2011, compared to 4.41% for the three months ended March 31, 2010, and 3.92% for the three months ended March 31, 2010.

Residential Loans Held for Sale

Residential loans held for sale were $3.1 million at March 31, 2011, compared to $4.0 million at March 31, 2010, and $3.8 million at December 31, 2010. Residential loans held for sale are loans that are closed, but not yet purchased by investors. The amount of residential loans held for sale on the balance sheet varies depending on the amount of originations, timing of loan sales to the secondary market and the percentage of residential loans being retained. The majority of new production during 2010 was retained in Old National s loan portfolio, resulting in lower residential loans held for sale. During 2011, it is anticipated that Old National will return to selling the majority of new loan production.

We have elected the fair value option under FASB ASC 825-10 (SFAS No. 159) for residential loans held for sale. The aggregate fair value exceeded the unpaid principal balances by $0.1 million and $0.1 million as of March 31, 2011 and March 31, 2010, respectively. At December 31, 2010, the aggregate fair value equaled the unpaid principal balance.

Finance Leases Held for Sale

At December 31, 2009, Old National had finance leases held for sale of $55.3 million. During 2010, management decided to transfer leases from held for sale back to the loan portfolio due to decreased levels of loan production. The leases were transferred at the lower of cost or fair value. No losses were recorded in connection with the transfer. There were no finance leases held for sale at March 31, 2011 or December 31, 2010, respectively.

Commercial and Commercial Real Estate Loans

Commercial and commercial real estate loans are the second largest classification within earning assets, representing 34.7% of earning assets at March 31, 2011, an increase from 32.2% at March 31, 2010, and an increase from 33.0% at December 31, 2010. At March 31, 2011, commercial and commercial real estate loans were $2.493 billion, an increase of $225.3 million since March 31, 2010, and an increase of $338.9 million since December 31, 2010. Included in the total for March 31, 2011 is approximately $341.3 million related to our acquisition of Monroe Bancorp. In the second quarter of 2010, $50.9 million of finance leases were moved from held for sale back to the loan portfolio. In addition, weak loan demand in our markets continues to affect loan growth. Our conservative underwriting standards have also contributed to slower loan growth. We continue to be cautious towards the real estate market in an effort to lower credit risk.

Consumer Loans

At March 31, 2011, consumer loans, including automobile loans, personal and home equity loans and lines of credit, decreased $126.2 million or 12.1% compared to March 31, 2010, and decreased $6.7 million or 0.7% since December 31, 2010. Included in the total for March 31, 2011 is approximately $40.3 million related to our acquisition of Monroe Bancorp. Payments on existing loans have more than offset new loan production.

Residential Real Estate Loans

At March 31, 2011, residential real estate loans held in our loan portfolio were $779.8 million, an increase of $115.1 million, or 17.3%, from December 31, 2010 and an increase of $376.8 million, or 93.5%, from March 31, 2010. In addition to organic loan production, March 31, 2011 totals also include approximately $37.6 million acquired from Monroe Bancorp. The majority of the growth in residential real estate loans began in the fourth quarter of 2010, primarily as a result of a new mortgage product that was introduced. Over the past twelve months new loan production has been greater than payments on existing loans.