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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)

Of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2012

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of the Registrant as specified in its charter)

INDIANA	**35-1539838**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**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)

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

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

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (s229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

The aggregate market value of the Registrant s voting common stock held by non-affiliates on June 30, 2012, was $1,102,329,460 (based on the closing price on that date of $12.01). In calculating the market value of securities held by non-affiliates of the Registrant, the Registrant has treated as securities held by affiliates as of June 30, 2012, voting stock owned of record by its directors and principal executive officers, and voting stock held by the Registrant s trust department in a fiduciary capacity for benefit of its directors and principal executive officers. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares outstanding of the Registrant s common stock, as of January 31, 2013, was 101,184,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 9, 2013, are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

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

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

- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- economic conditions generally and in the financial services industry;
- expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;
- unexpected difficulties and losses related to FDIC-assisted acquisitions, including those resulting from our loss-sharing arrangements with the FDIC;
- increased competition in the financial services industry either nationally or regionally, resulting in, among other things, credit quality deterioration;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- governmental legislation and regulation, including changes in accounting regulation or standards;
- our ability to execute our business plan;

- a weakening of the economy which could materially impact credit quality trends and the ability to generate loans;
- changes in the securities markets; and
- changes in fiscal, monetary and tax policies.

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

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PART I

ITEM 1. BUSINESS

GENERAL

Old National is a financial holding company incorporated in the State of Indiana and maintains its principal executive office in Evansville, Indiana. We, through our wholly owned banking subsidiary, provide a wide range of services, including commercial and consumer loan and depository services, investment and brokerage services, lease financing and other traditional banking services. Through our non-bank affiliates, we provide services to supplement the banking business including fiduciary and wealth management services, insurance and other financial services. As of December 31, 2012, we employed 2,684 full-time equivalent associates.

COMPANY PROFILE

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

OPERATING SEGMENTS

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

Community Banking Segment

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

As of December 31, 2012, Old National Bank operated 180 banking financial centers located primarily in Indiana, Illinois, and Kentucky. The community banking segment primarily consists of lending and depository activities along with merchant cash management, internet banking and other services relating to the general banking business. In addition, the community banking segment includes Indiana Old National Insurance Company (IONIC), which reinsures credit life insurance. IONIC also provides property and casualty insurance for Old National and reinsures most of the coverage with non-affiliated carriers.

Lending Activities

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

Depository Activities

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

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Investment and Brokerage Services

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

Treasury Segment

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

Other

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

Wealth Management

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

Insurance Agency Services

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

Purchased Credit Impaired Loans

For internal reporting, purchased credit impaired loans and the associated FDIC indemnification asset reside in the special assets department and are included in the Other segment.

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

MARKET AREA

We own the largest Indiana-based bank and one of the largest independent insurance agencies headquartered in Indiana. Operating from a home base in Evansville, Indiana, we have continued to grow our footprint in Indiana and Kentucky with continued expansion in the attractive Louisville, Indianapolis and Lafayette markets. In February 2007, we expanded into Northern Indiana by acquiring St. Joseph Capital Corporation, which had banking offices in Mishawaka and Elkhart, Indiana. In March 2009, we completed the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which consisted of 65 branches and a training facility. The branches are located primarily in the Indianapolis area. On January 1, 2011, we closed on our acquisition of Monroe Bancorp, strengthening our presence in Bloomington, Indiana and the central and south central Indiana markets. On July 29, 2011, we acquired the banking operations of Integra Bank N.A. in an FDIC-assisted transaction. Integra Bank was a full service community bank headquartered in Evansville, Indiana that operated 52 branch locations, primarily in southwest Indiana, southeastern Illinois and western Kentucky. On September 15, 2012, we closed on our acquisition of Indiana Community Bancorp, strengthening our presence in Columbus, Indiana and the south central Indiana market.

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The following table reflects the market locations where we have a significant share of the deposit market. The market share data is by metropolitan statistical area. The Evansville, Indiana data includes branches in Henderson, Kentucky. The data includes deposit information for Indiana Community Bancorp, which was acquired on September 15, 2012.

Old National Deposit Market Share and Number of Branch Locations

Deposits as of June 30, 2012

Market Location	Number of Branches	Deposit Market Share Rank
Evansville, Indiana	20	1
Bloomington, Indiana	9	1
Central City, Kentucky	4	1
Danville, Illinois	2	1
North Vernon, Indiana	1	1
Vincennes, Indiana	4	2
Washington, Indiana	3	2
Columbus, Indiana	7	2
Jasper, Indiana	7	2
Terre Haute, Indiana	6	2
Seymour, Indiana	3	2
Carbondale, Illinois	4	3
Madison, Indiana	1	3

Source: FDIC

ACQUISITION AND DIVESTITURE STRATEGY

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

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

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

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

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On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC- assisted transaction. Integra was a full service community bank headquartered in Evansville, Indiana that operated 52 branch locations. As part of the purchase and assumption agreement, the Company and the FDIC entered into loss sharing agreements (each, a loss sharing agreement and collectively, the loss sharing agreements), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), other real estate owned (OREO) and up to 90 days of certain accrued interest on loans. The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0% reimbursement, and 80% of losses in excess of $467.2 million. As of December 31, 2012, we do not expect losses to exceed $275.0 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC has reimbursed the Bank under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

On September 15, 2012, Old National acquired Indiana Community Bancorp in an all stock transaction. Indiana Community Bancorp was headquartered in Columbus, Indiana and had 17 full-service banking centers serving the South Central Indiana area. Pursuant to the merger agreement, the shareholders of Indiana Community Bancorp received approximately 6.6 million shares of Old National Bancorp common stock valued at approximately $88.5 million. Old National assumed assets with a fair value of approximately $906.3 million, including $497.4 million of loans and $784.6 million of deposits. The acquisition strengthened our deposit market share in Columbus, Indiana and south central Indiana market.

COMPETITION

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

SUPERVISION AND REGULATION

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

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

The Dodd-Frank Act

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

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

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

- Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies.

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

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

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

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

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

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

Make permanent the $250,000 limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000.

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

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

The Dodd-Frank Act also creates a new Bureau of Consumer Financial Protection (the CFPB) that is responsible for administering federal consumer financial protection laws. The CFPB, which began operations on July 21, 2011, is an independent bureau within the FRB and has broad rule-making, supervisory and examination authority to set and enforce rules in the consumer protection area over financial institutions that have assets of $10.0 billion or more. The Dodd-Frank Act also gives the CFPB expanded data collecting powers for fair lending purposes for both small business and mortgage loans, as well as expanded authority to prevent unfair, deceptive and abusive practices. The consumer complaint function will also be consolidated into the CFPB.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Old National, its customers or the financial industry more generally. However, several provisions of the Dodd-Frank Act have been implemented. In addition to the establishment of the CFPB, the FRB final rule implementing the Dodd-Frank Act s Durbin Amendment, which limits debit card interchange fees, was issued on July 21, 2011 for transactions occurring after September 30, 2011. The final rule established a cap on the fees banks with more than $10 billion in assets can charge merchants for debit card transactions. The fee was set at $0.21 per transaction plus an additional 5 bps of the transaction amount and $0.01 to cover fraud losses. The FRB repealed Regulation Q as mandated by the Dodd-Frank Act on July 21, 2011. Regulation Q was implemented as part of the Glass-Steagall Act in the 1930 s and provided a prohibition against the payment of interest on demand deposits.

While the total impact of the fully implemented Dodd-Frank Act on Old National is not currently known, the impact is expected to be substantial and may have an adverse impact on its financial performance and growth opportunities. Provisions in the legislation that affect the payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. Provisions in the legislation that revoke the Tier 1 capital treatment of trust preferred securities and otherwise require revisions to the capital requirements of Old National and Old National Bank could require Old National and Old National Bank to seek other sources of capital in the future.

Other Regulatory Agencies and Requirements

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

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

On October 26, 2001, the USA Patriot Act of 2001 was signed into law. Enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. on September 11, 2001, the Patriot Act is intended to strengthen U.S. law enforcement s and the intelligence community s ability to work cohesively to combat terrorism on a variety of fronts. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and the statute and regulations promulgated under it impose a number of significant obligations on entities subject to its provisions, including: (a) due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons; (b) standards for verifying customer identification at account opening; (c) rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (d) reports by non-financial trades and businesses filed with the U.S. Treasury Department s (the Treasury Department or the Treasury) Financial Crimes Enforcement Network for transactions exceeding $10,000; and (e) filing of suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws and regulations.

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

Bank holding companies are required to comply with the Federal Reserve s risk-based capital guidelines. The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) have adopted risk-based capital ratio guidelines to which depository institutions under their respective supervision are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Old National s banking affiliate, Old National Bank, met all risk-based capital requirements of the FDIC and OCC as of December 31, 2012. For Old National s regulatory capital ratios and regulatory requirements as of December 31, 2012, see Note 21 to the consolidated financial statements.

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

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

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

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

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

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

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

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

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

For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement such that the instrument must be written off or converted to common equity if a trigger event occurs, either pursuant to applicable law or at the direction of the banking regulator. A trigger event is an event under which the banking entity would become nonviable without the write-off or conversion, or without an injection of capital from the public sector. The issuer must maintain authorization to issue the requisite shares of common equity if conversion were required.

The Basel III provisions on liquidity include complex criteria establishing a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR). The purpose of the LCR is to ensure that a bank maintains adequate unencumbered, high quality liquid assets to meet its liquidity needs for 30 days under a severe liquidity stress scenario. The purpose of the NSFR is to promote more medium and long-term funding of assets and activities, using a one-year horizon. Although Basel III is described as a final text, it is subject to the resolution of certain issues and to further guidance and modification, as well as to adoption by United States banking regulators.

When fully phased in on January 1, 2019, Basel III requires banks to maintain the following new standards and introduces a new capital measure Common Equity Tier 1 , or CET1 . Basel III increases the CET1 to risk-weighted assets to 4.5%, and introduces a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target CET1 to risk-weighted assets ratio to 7%. It requires banks to maintain a minimum ratio of Tier 1 capital to risk weighted assets of at least 6.0%, plus the capital conservation buffer effectively resulting in Tier 1 capital ratio of 8.5%. Basel III increases the minimum total capital ratio to 8.0% plus the capital conservation buffer, increasing the minimum total capital ratio to 10.5%. Basel III also introduces a non-risk adjusted tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity.

On June 7, 2012, the federal bank regulatory agencies issued a series of proposed rules that would revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with Basel III and certain provisions of the Dodd-Frank Act. The proposed rules would apply to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more, and top-tier savings and loan holding companies (banking organizations). Among other things, the proposed rules establish a new Common Equity Tier 1 minimum capital requirement of 4.5% and a higher minimum Tier 1 capital requirement of 6.0%. The proposed rules would also increase the required capital for certain categories of assets, including higher-risk residential mortgages, higher-risk construction real estate loans and certain exposures related to securitizations.

Additionally, the U.S. implementation of Basel III contemplates that, for banking organizations with less than $15 billion in assets, the ability to treat trust preferred securities as Tier 1 capital would be phased out over a ten-year period. The proposed rules also required unrealized gains and losses on certain securities holdings to be included for purposes of calculating regulatory capital requirements. The proposed rules limit a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of a specified amount of Common Equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements.

The Basel III implementation proposal provides for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel III Proposal, the effects of certain accumulated other comprehensive items are not excluded, which could result in significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Corporation s securities portfolio. The Basel III Proposal also requires the phase-out of certain hybrid securities, such as trust preferred securities, as Tier 1 capital of bank holding companies in equal installments between 2013 and 2016. Trust preferred securities no longer included in Tier 1 capital may nonetheless be included as a component of Tier 2 capital.

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Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2014 and will be phased-in over a five-year period (20% per year). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The Basel III implementation proposal would also revise the prompt corrective action regulations described below by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III proposal does not change the total risk-based capital requirement for any category.

Management believes that, as of December 31, 2012, Old National and Old National Bank would meet all capital adequacy requirements under the proposed rules on a fully phased-in basis if such requirements were currently effective. There can be no guarantee that the rule proposals will be adopted in their current form, what changes may be made before adoption, or when ultimate adoption will occur. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Corporation s net income and return on equity.

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

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

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

FDICIA accomplished a number of sweeping changes in the regulation of depository institutions, including Old National Bank. FDICIA requires, among other things, federal bank regulatory authorities to take prompt corrective action with respect to banks which do not meet minimum capital requirements.

Under current prompt corrective action regulations, a bank will be (i) well capitalized if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not well capitalized ; (iii) undercapitalized if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and (v) critically undercapitalized if the institution s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank s overall financial condition or prospects for other purposes.

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FDICIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution s capital. In addition, for a capital restoration plan to be acceptable, the depository institution s parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

Management believes that, as of December 31, 2012, Old National Bank was well capitalized based on the aforementioned ratios.

FDICIA further directed each federal banking agency to prescribe standards for depository institutions and depository institution holding companies relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, management compensation, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value of publicly traded shares and such other standards as the agency deems appropriate.

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

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

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the USA Patriot Act) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

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We are currently subject to a consent order with the OCC relating to our Bank Secrecy Act/Anti-Money Laundering Program. See Risk Factors A failure by Old National Bank to satisfy the terms and conditions of the Consent Order it consented and agreed to with the Office of the Comptroller of the Currency may subject it to monetary penalties and impact future regulatory approvals.

In October 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was enacted. The EESA authorized the Treasury Department to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program (TARP). The purpose of TARP was to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The Treasury Department allocated $350 billion towards the TARP Capital Purchase Program (CPP). Under the CPP, Treasury purchased debt or equity securities from participating institutions. The TARP also included direct purchases or guarantees of troubled assets of financial institutions. Participants in the CPP are subject to executive compensation limits and are encouraged to expand their lending and mortgage loan modifications. Old National participated in CPP, but on March 31, 2009, Old National repurchased all of the $100 million in preferred, non-voting stock that was sold to the Treasury Department as part of the CPP. In May 2009, Old National repurchased the warrants for up to 813,000 shares of the Company s common stock issued by the Company to the Treasury Department on December 12, 2008 for $1.2 million. This repurchase was the final phase required of Old National to end its participation in the CPP.

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

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

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

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

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

AVAILABLE INFORMATION

All reports filed electronically by Old National with the Securities and Exchange Commission (SEC), including the annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements, other information and amendments to those reports filed or furnished (if applicable), are accessible at no cost on Old National s web site at www.oldnational.com as soon as reasonably practicable after electronically submitting such materials to the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, and Old National s filings are accessible on the SEC s web site at www.sec.gov. The public may read and copy any materials filed by Old National with the SEC at the SEC s Public Reference Room at 100 F Street, N.E, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

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

Risks Related to Old National s Business

A failure by Old National Bank to satisfy the conditions and obligations of the Consent Order it consented and agreed to with the Office of the Comptroller of the Currency (OCC) may subject it to monetary penalties and impact future regulatory approvals.

Old National Bank is subject to certain conditions and obligations of a Consent Order (the Order) it consented and agreed to with the OCC, Old National Bank s federal banking regulator, relating to Old National Bank s Bank Secrecy Act/Anti-Money Laundering Program. Among other things, the Order requires the ongoing implementation of a system of internal controls, independent testing and training programs designed to ensure full compliance with the Bank Secrecy Act (BSA) and to review account and transaction activity to determine whether suspicious activity was timely identified and reported by Old National Bank. The OCC did not identify any systemic undetected criminal activity or money laundering and the Order does not call for the payment of a civil monetary penalty. While the Order is in effect, it may impact Old National s ability to obtain regulatory approval for merger and acquisition activity. While Old National Bank is implementing or has implemented corrective action for each deficiency and expects to satisfy all of the requirements of the Order in a timely fashion, material failure to comply with the Order could result in enforcement actions by the OCC, including the imposition of operating and expansion restrictions and monetary penalties.

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

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

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

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

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

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

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

Old National makes various assumptions and judgments about the collectibility of Old National s loan portfolio, including the creditworthiness of Old National s borrowers and the value of the real estate and other assets serving as collateral for the repayment of Old National s loans. Despite Old National s underwriting and monitoring practices, the effect of the declining economy could negatively impact the ability of Old National s borrowers to repay loans in a timely manner and could also negatively impact collateral values. As a result, Old National may experience significant loan losses that could have a material adverse effect on Old National s operating results. Since Old National must use assumptions regarding individual loans and the economy, Old National s current allowance for loan losses may not be sufficient to cover actual loan losses. Old National s assumptions may not anticipate the severity or duration of the current credit cycle and Old National may need to significantly increase Old National s provision for losses on loans if one or more of Old National s larger loans or credit relationships becomes delinquent or if Old National expands its commercial real estate and commercial lending. In addition, federal and state regulators periodically review Old National s allowance for loan losses and may require Old National to increase the provision for loan losses or recognize loan charge-offs. Material additions to Old National s allowance would materially decrease Old National s net income. There can be no assurance that Old National s monitoring procedures and policies will reduce certain lending risks or that Old National s allowance for loan losses will be adequate to cover actual losses.

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

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

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

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

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

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

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We face risks with respect to expansion.

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

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

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

- the time and costs associated with identifying potential new markets, as well as acquisition and merger targets;
- the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;
- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- the diversion of our management s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combined businesses;
- entry into new markets where we lack experience;
- the introduction of new products and services into our business;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and
- the risk of loss of key employees and customers.

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

- loss of customers of the failed bank;

strain on management resources related to collection and management of problem loans;

problems related to integration of personnel and operating systems;

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- the ultimate collectibility of claims with the FDIC under the shared loss agreement are dependent upon the performance of the underlying covered assets, the passage of time and our ability to service loans in accordance with the shared loss agreement; and

- losses may exceed our estimates and move us into a tranche where we have 0% coverage under our loss sharing agreements with the FDIC.

***Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be very high*.**

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our capital resources will satisfy our capital requirements for the foreseeable future. We may at some point need to raise additional capital to support continued growth or losses, both internally and through acquisitions. Any capital we obtain may result in the dilution of the interests of existing holders of our common stock.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time (which are outside our control) and on our financial condition and performance. Accordingly, we cannot make assurances of our ability to raise additional capital if needed, or if the terms will be acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired and our financial condition and liquidity could be materially and negatively affected.

Our wholesale funding sources may prove insufficient to replace deposits or support our future growth.

As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These sources include brokered certificates of deposit, repurchase agreements, and federal funds purchased. Negative operating results or changes in industry conditions could lead to an inability to replace these additional funding sources at maturity. Our financial flexibility could be constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our results of operations and financial condition would be negatively affected.

Our Accounting Estimates and Risk Management Processes Rely On Analytical and Forecasting Models

The processes that we use to estimate probable loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depend upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If our models for determining interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If our models for determining probable loan losses are inadequate, the allowance for loan losses may not be sufficient to support future charge-offs. If our models to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

The Repeal Of Federal Prohibitions On Payment Of Interest On Demand Deposits Could Increase Our Interest Expense

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act beginning on July 21, 2011. As a result, some financial institutions have commenced offering interest on demand deposits to compete for customers. We cannot predict what interest rates other institutions may offer as market interest rates begin to increase. Our interest expense will increase and our net interest margin will decrease if we begin offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

Old National relies upon a variety of computing platforms and networks over the internet for the purposes of data processing, communication and information exchange. Despite the safeguards instituted by Old National, such systems are susceptible to a breach of security. In addition, Old National relies on the services of a variety of third-party vendors to meet Old National s data processing and communication needs. The occurrence of any failures, interruptions or security breaches of Old National s information systems or our vendors information systems could damage our reputation, result in a loss of customer business, and expose us to civil litigation and possible financial loss. Such costs and/or losses could materially affect Old National s earnings.

Fiduciary Activity Risk Factor

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

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

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Risks Related to the Banking Industry

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

Old National operates in a highly regulated environment and is subject to extensive regulation, supervision and examination by the Office of Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (the Federal Reserve) and the State of Indiana. Such regulation and supervision of the activities in which an institution may engage is primarily intended for the protection of the depositors and federal deposit insurance funds. In addition, the Treasury has certain supervisory and oversight duties and responsibilities under EESA and the CPP. See Business Supervision and Regulation herein. Applicable laws and regulations may change, and such changes may adversely affect Old National s business. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Old National. Provisions in the legislation that affect the payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as place limitation on certain revenues those deposits may generate. Provisions in the legislation that revoke the Tier 1 capital treatment of trust preferred securities and otherwise require revisions to the capital requirements of Old National and Old National Bank could require Old National and Old National Bank to seek other sources of capital in the future. In addition, certain provisions in the legislation that do not currently apply to Old National may become effective if Old National grows and its consolidated assets increase to over ten billion.

Regulatory authorities also have extensive discretion in connection with their supervisory and enforcement activities, including but not limited to the imposition of restrictions on the operation of an institution, the classification of assets by the institution, the adequacy of an institution s Bank Secrecy Act/Anti Money Laundering program management, and the adequacy of an institution s allowance for loan losses. Any change in such regulation and oversight, whether in the form of restrictions on activities, regulatory policy, regulations, or legislation, including but not limited to changes in the regulations governing institutions, could have a material impact on Old National and its operations.

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

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

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

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

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Our Internal Operations are Subject to a Number of Risks.

Old National s internal operations are subject to certain risks, including but not limited to, data processing system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. Operational risk resulting from inadequate or failed internal processes, people, and systems includes the risk of fraud by employees or persons outside of our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

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

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

Financial institutions are inherently exposed to fraud risk. A fraud can be perpetrated by a customer of the Bank, an employee, a vendor, or members of the general public. We are most subject to fraud and compliance risk in connection with the origination of loans, ACH transactions, ATM transactions and checking transactions. Our largest fraud risk, associated with the origination of loans, includes the intentional misstatement of information in property appraisals or other underwriting documentation provided to us by third parties. Compliance risk is the risk that loans are not originated in compliance with applicable laws and regulations and our standards. There can be no assurance that we can prevent or detect acts of fraud or violation of law or our compliance standards by the third parties that we deal with. Repeated incidences of fraud or compliance failures would adversely impact the performance of our loan portfolio.

Risks Related to Old National s Stock

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

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

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

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

- announcements of developments related to Old National s business;
- fluctuations in Old National s results of operations;
- sales or purchases of substantial amounts of Old National s securities in the marketplace;

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- general conditions in Old National s banking niche or the worldwide economy;
- a shortfall or excess in revenues or earnings compared to securities analysts expectations;
- changes in analysts recommendations or projections; and
- Old National s announcement of new acquisitions or other projects.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2012, Old National and its affiliates operated a total of 180 banking centers, loan production or other financial services offices, primarily in the states of Indiana, Illinois and Kentucky. Of these facilities, 38 were owned.

The executive offices of Old National are located at 1 Main Street, Evansville, Indiana. This building, which houses Old National s general corporate functions, is leased from an unaffiliated third party. The lease term expires December 31, 2031, and provides for the tenant s option to extend the term of the lease for four five-year periods. In addition, we lease 142 financial centers from unaffiliated third parties. The terms of these leases range from six months to twenty-four years. See Note 19 to the consolidated financial statements.

ITEM 3. LEGAL PROCEEDINGS

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. Old National will accrue for a loss contingency if (1) it is probable that a future event will occur and confirm the loss and (2) the amount of the loss can be reasonably estimated.

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. This litigation was fully and finally settled in the first quarter of 2012. The Company had previously accrued $2 million in the third quarter of 2011 in anticipation of negotiating the final settlement and resolution of the matter. The matter was fully settled for the amount of the accrual. However, a portion of the settlement funds were put temporarily in escrow to account for uncertain contingencies. These funds, less contingencies (if any), were released to the beneficiaries in December 2012 pursuant to the terms of the settlement agreement.

In November 2010, Old National was named in a class action lawsuit in Vanderburgh County Circuit Court challenging Old National Bank s checking account practices associated with the assessment of overdraft fees. On May 1, 2012, the plaintiff was granted permission to file a First Amended Complaint which names additional plaintiffs and amends certain claims. The plaintiffs seek damages and other relief, including restitution. Old National believes it has meritorious defenses to the claims brought by the plaintiffs. At this phase of the litigation, it is not possible for management of Old National to determine the probability of a material adverse outcome or reasonably estimate the amount of any loss. No class has yet been certified and discovery is ongoing. On June 13, 2012, Old National filed a motion to dismiss the First Amended Complaint, which has not yet been ruled upon. On September 7, 2012, the plaintiffs filed a motion for class certification.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Old National s common stock is traded on the New York Stock Exchange (NYSE) under the ticker symbol ONB. The following table lists the high and low closing sales prices as reported by the NYSE, share volume and dividend data for 2012 and 2011:

	Price Per Share		Share	Dividend
	High	Low	Volume	Declared
2012				
First Quarter	**$ 13.29**	**$ 11.52**	**35,989,100**	**$ 0.09**
Second Quarter	**13.21**	**10.92**	**26,520,600**	**0.09**
Third Quarter	**14.10**	**11.84**	**25,206,900**	**0.09**
Fourth Quarter	**13.90**	**10.94**	**31,430,300**	**0.09**
2011				
First Quarter	$ 12.15	$ 10.35	29,575,800	$ 0.07
Second Quarter	11.33	10.16	34,157,500	0.07
Third Quarter	11.05	8.67	52,288,900	0.07
Fourth Quarter	11.99	9.05	47,713,600	0.07

There were 23,525 shareholders of record as of December 31, 2012. Old National declared cash dividends of $0.36 per share during the year ended December 31, 2012 and $0.28 per share during the year ended December 31, 2011. Old National s ability to pay cash dividends depends primarily on cash dividends received from Old National Bank. Dividend payments from Old National Bank are subject to various regulatory restrictions. See Note 21 to the consolidated financial statements for additional information.

The following table summarizes the purchases of equity securities made by Old National during the fourth quarter of 2012:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/12 10/31/12	600	$ 13.75	600	1,933,564
11/01/12 11/30/12	250,176	12.16	250,176	1,683,388
12/01/12 12/31/12	9,567	11.87	9,567	1,673,821
Total	260,343	$ 12.15	260,343	1,673,821

On January 26, 2012, the Board of Directors approved the repurchase of up to 2.0 million shares of common stock over a twelve month period beginning January 26, 2012 and ending January 31, 2013. During the fourth quarter of 2012, Old National repurchased 250,000 shares on the open market. During the twelve months ended December 31, 2012, Old National also repurchased a limited number of shares associated with employee share-based incentive programs.

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Subsequent to year-end, the Board of Directors approved the repurchase of up to 2.0 million shares of common stock over a twelve month period that runs through January 31, 2014. On January 24, 2013, the Board of Directors also declared an increase in its quarterly common stock dividend to $.10 per share, an 11.1% increase over the previous cash dividend level of $.09 per share. Old National s recent financial performance and strong capital position allowed it to increase the cash dividend.

EQUITY COMPENSATION PLAN INFORMATION

The following table contains information concerning the 2008 Equity Incentive Plan approved by security holders, as of December 31, 2012.

2008 EQUITY COMPENSATION PLAN

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	4,095,556	$ 17.71	3,535,002
Equity compensation plans not approved by security holders			
Total	4,095,556	$ 17.71	3,535,002

The following table compares cumulative five-year total shareholder returns, assuming reinvestment of dividends, for the Company s common stock to cumulative total returns of a broad-based equity market index and two published industry indices.

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The comparison of shareholder returns (change in December year end stock price plus reinvested dividends) for each of the periods assumes that $100 was invested on December 31, 2007, in common stock of each of the Company, the S&P Small Cap 600 Index, the NYSE Financial Index and the SNL Bank and Thrift Index with investment weighted on the basis of market capitalization.

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ITEM 6. SELECTED FINANCIAL DATA

(dollars in thousands, except per share data)	2012	2011	2010	2009	2008
Operating Results					
Net interest income	**$ 308,757**	$ 272,873	$ 218,416	$ 231,399	$ 243,325
Conversion to fully taxable equivalent (1)	**13,188**	11,821	13,482	20,831	19,326
Net interest income tax equivalent basis	**321,945**	284,694	231,898	252,230	262,651
Provision for loan losses	**5,030**	7,473	30,781	63,280	51,464
Noninterest income	**189,816**	182,883	170,150	163,460	166,969
Noninterest expense	**365,758**	348,521	314,305	338,956	297,229
Net income available to common shareholders	**91,675**	72,460	38,214	9,845	62,180
Common Share Data (2)					
Weighted average diluted shares	**96,833**	94,772	86,928	71,367	65,776
Net income (diluted)	**$ 0.95**	$ 0.76	$ 0.44	$ 0.14	$ 0.95
Cash dividends	**0.36**	0.28	0.28	0.44	0.69
Common dividend payout ratio (3)	**37.80**	36.59	63.75	308.59	73.51
Book value at year-end	**11.81**	10.92	10.08	9.68	9.56
Stock price at year-end	**11.87**	11.65	11.89	12.43	18.16
Balance Sheet Data (at December 31)					
Loans (4)	**$ 5,209,185**	$ 4,771,731	$ 3,747,270	$ 3,908,276	$ 4,777,514
Total assets	**9,543,623**	8,609,683	7,263,892	8,005,335	7,873,890
Deposits	**7,278,953**	6,611,563	5,462,925	5,903,488	5,422,287
Other borrowings	**237,493**	290,774	421,911	699,059	834,867
Shareholders equity	**1,194,565**	1,033,556	878,805	843,826	730,865
Performance Ratios					
Return on average assets (ROA)	**1.04%**	0.86%	0.50%	0.17%	0.82%
Return on average common shareholders equity (ROE)	**8.34**	7.24	4.40	1.41	9.49
Average equity to average assets	**12.49**	11.94	11.46	9.06	8.67
Net interest margin (5)	**4.23**	3.87	3.40	3.50	3.82
Efficiency ratio (6)	**71.83**	73.80	79.25	80.45	69.39
Asset Quality (7)					
Net charge-offs to average loans	**0.17%**	0.49%	0.75%	1.40%	0.87%
Allowance for loan losses to ending loans	**1.05**	1.22	1.93	1.81	1.41
Allowance for loan losses	**$ 54,763**	$ 58,060	$ 72,309	$ 69,548	$ 67,087
Underperforming assets (8)	**301,919**	340,543	77,108	78,666	69,883
Other Data					
Full-time equivalent employees	**2,684**	2,551	2,491	2,812	2,507
Branches and financial centers	**180**	183	161	172	117

(1) Calculated using the federal statutory tax rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations.
(2) Diluted data assumes the exercise of stock options and the vesting of restricted stock.
(3) Cash dividends divided by income available to common stockholders.
(4) Includes residential loans and finance leases held for sale.
(5) Defined as net interest income on a tax equivalent basis as a percentage of average earning assets.
(6) Defined as noninterest expense before amortization of intangibles as a percent of fully taxable equivalent net interest income and noninterest income, excluding net gains from securities transactions. This presentation excludes intangible amortization and net securities gains, as is common in other company disclosures, and better aligns with true operating performance.
(7) Excludes residential loans and finance leases held for sale.
(8) Includes nonaccrual loans, renegotiated loans, loans 90 days past due still accruing and other real estate owned. Includes $130.1 million and $215.7 million of covered assets in 2012 and 2011, respectively, acquired in an FDIC assisted transaction, which are covered by loss sharing agreements with the FDIC providing for specified loss protection.

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ITEM 7. 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 fiscal years ended December 31, 2012, 2011 and 2010, and financial condition as of December 31, 2012 and 2011. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business. Readers are cautioned that, by their nature, forward-looking statements are based on estimates and assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from our expectations that are expressed or implied by any forward-looking statement. The discussion in Item 1A, Risk Factors, lists some of the factors that could cause our actual results to vary materially from those expressed or implied by any forward-looking statements, and such discussion is incorporated into this discussion by reference.

GENERAL OVERVIEW

Old National is a financial holding company incorporated in the State of Indiana and maintains its principal executive offices in Evansville, Indiana. Old National, through Old National Bank, provides a wide range of services, including commercial and consumer loan and depository services, lease financing and other traditional banking services. Old National also provides services to supplement the traditional banking business including fiduciary and wealth management services, investment and brokerage services, investment consulting, insurance and other financial services.

The Company s basic mission is to be THE community bank in the cities and towns it serves. The Company focuses on establishing and maintaining long-term relationships with customers, and is committed to serving the financial needs of the communities in its market area. Old National provides financial services primarily in Indiana, eastern and southeastern Illinois, and central and western Kentucky.

CORPORATE DEVELOPMENTS IN FISCAL 2012

Net income for 2012 was $91.7 million, an increase of $19.2 million from 2011. Diluted earnings per share available to common shareholders were $0.95 per share, an increase of $0.19 per share from 2011.

The improvement in 2012 net income was primarily the result of accretion income associated with acquired loans, lower cost funding sources, modest organic loan growth, and improved credit. Partially offsetting the higher net revenue were higher noninterest expenses associated with our recent acquisitions.

The Company successfully integrated Indiana Community Bancorp at the end of the third quarter. This transaction strengthens our position as the third largest branch network in Indiana and allows us to expand our services into Columbus, Indiana and other vibrant regions in the south central Indiana market.

Subsequent to year-end, the Company also announced its intent to enter into the southwest lower Michigan market through the acquisition of 24 Bank of America branches. The entry into this new market and the full ramp-up of lenders at the former Indiana Community Bancorp locations give rise to our favorable commercial loan growth outlook.

BUSINESS OUTLOOK

While we believe the interest rate environment will continue to pose challenges for 2013 revenue growth, our clients are expressing more optimism regarding the state of the economy.

Our goals for 2013 are much the same as they were in 2012: increase revenue, reduce expenses and target partnership opportunities that align with our financial and strategic goals.

While we remain committed to a risk-conscious approach to lending, we know how vital it is to generate new loan growth in 2013 and beyond. We believe our new partnerships, and the new client base they represent, position us well to achieve this growth.

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As we did in 2012, we will continue to look for ways to enhance the Company s efficiency ratio through process improvements, organizational streamlining and other cost reduction strategies.

We continue to target additional partnerships. We are focused on expanding our wealth management business and community banks in growth markets that are either within or near our existing franchise. Such strategic consolidations should improve the Company s bottom line while expanding our distribution network, which helps build long-term shareholder value.

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the years ended December 31, 2012, 2011, and 2010:

(dollars in thousands)	2012	2011	2010
Income Statement Summary:			
Net interest income	**$ 308,757**	$ 272,873	$ 218,416
Provision for loan losses	**5,030**	7,473	30,781
Noninterest income	**189,816**	182,883	170,150
Noninterest expense	**365,758**	348,521	314,305
Other Data:			
Return on average common equity	**8.34%**	7.24%	4.40%
Efficiency ratio (1)	**71.83%**	73.80%	79.25%
Tier 1 leverage ratio	**8.56%**	8.29%	9.01%
Net charge-offs to average loans	**0.17%**	0.49%	0.75%

(1) Efficiency ratio is defined as noninterest expense before amortization of intangibles as a percent of fully taxable equivalent net interest income and noninterest income, excluding net gains from securities transactions. This presentation excludes intangible amortization and net securities gains, as is common in other company disclosures, and better aligns with true operating performance. This is a non-GAAP financial measure that management believes to be helpful in understanding Old National s results of operations.

Comparison of Fiscal Years 2012 and 2011

Net Interest Income

Net interest income is the most significant component of our earnings, comprising over 61% of 2012 revenues. 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 level of accretion income on purchased loans, prepayment risk on mortgage and investment-related assets and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from client deposits generally cost less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the 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.

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(dollars in thousands)	2012	2011	2010
Net interest income	$ 308,757	$ 272,873	$ 218,416
Conversion to fully taxable equivalent	13,188	11,821	13,482
Net interest income taxable equivalent basis	$ 321,945	$ 284,694	$ 231,898
Average earning assets	7,617,060	7,359,092	6,814,607
Net interest margin	4.05%	3.71%	3.21%
Net interest margin taxable equivalent basis	4.23%	3.87%	3.40%

Net interest income was $308.8 million in 2012, a 13.2% increase from the $272.9 million reported in 2011. Taxable equivalent net interest income was $321.9 million in 2012, a 13.1% increase from the $284.7 million reported in 2011. The net interest margin on a fully taxable equivalent basis was 4.23% for 2012, a 36 basis point increase compared to the 3.87% reported in 2011. The increase in both net interest income and net interest margin is primarily due to the acquisition of Integra Bank on July 29, 2011 and Indiana Community Bancorp (IBT) on September 15, 2012 combined with a change in the mix of interest earning assets and interest-bearing liabilities. The accretion associated with the purchased assets benefited net interest margin by 75 basis points in 2012 compared to 50 basis points in 2011. We expect this benefit to decline over time. The yield on average earning assets increased 10 basis points from 4.60% to 4.70% while the cost of interest-bearing liabilities decreased 32 basis points from 0.96% to 0.64%. Average earning assets increased by $258.0 million, or 3.5%. Average interest-bearing liabilities increased $28.8 million, or 0.5%. The increase in average earning assets consisted of a $418.5 million increase in loans, a $36.8 million decrease in lower yielding investment securities and a $123.7 million decrease in money market and other interest-earning investments. The increase in average interest-bearing liabilities consisted of a $113.2 million increase in interest-bearing deposits, a $50.3 million increase in short-term borrowings and a $134.7 million decrease in other borrowings. Noninterest-bearing deposits increased by $272.8 million.

Significantly affecting average earning assets during 2012 was the increase in the size of the loan portfolio combined with the reduction in the size of the investment portfolio and the decrease in interest earning cash balances at the Federal Reserve. Included in average earning assets for 2012 are approximately $169.3 million from the Indiana Community Bancorp acquisition, which was completed on September 15, 2012, and $543.5 million from the Integra Bank acquisition, which was completed on July 29, 2011. Included in average earning assets for 2011 was $319.5 million from the Integra Bank acquisition. The increase in average loans during 2012 is primarily a result of the Indiana Community Bancorp and Integra Bank acquisitions. However, in 2012 we continued to experience growth in our residential mortgage loan portfolio and late in the year began to experience modest growth in our commercial loan portfolio. The loan portfolio, which generally has an average yield higher than the investment portfolio, was approximately 63% of interest earning assets at December 31, 2012.

Positively affecting margin was an increase in noninterest-bearing demand deposits combined with decreases in time deposits and other borrowings. During the fourth quarter of 2012, we terminated $50.0 million of FHLB advances. On June 30, 2012 we redeemed $13.0 million of subordinated notes and $3.0 million of trust preferred securities. During 2011, we prepaid $119.2 million of FHLB advances and $80.0 million of structured repurchase agreements. In the fourth quarter of 2011, $150.0 million of subordinated bank notes matured. 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.

The following table presents a three-year average balance sheet and for each major asset and liability category, its related interest income and yield or its expense and rate for the years ended December 31.

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THREE-YEAR AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS

(tax equivalent basis, dollars in thousands)	2012 Average Balance	2012 Interest & Fees	2012 Yield/ Rate	2011 Average Balance	2011 Interest & Fees	2011 Yield/ Rate	2010 Average Balance	2010 Interest & Fees	2010 Yield/ Rate
Earning Assets									
Money market and other interest- earning investments (7)	**$ 29,161**	**$ 54**	**0.18%**	$ 152,848	$ 362	0.24%	$ 177,786	$ 431	0.24%
Investment securities: (6)									
U.S. Treasury & Government-sponsored agencies (1)	**1,826,297**	**41,790**	**2.29**	1,969,590	52,369	2.66	2,150,562	77,208	3.59
States and political subdivisions (3)	**684,648**	**37,464**	**5.47**	580,851	34,135	5.88	536,295	33,181	6.19
Other securities	**214,556**	**8,162**	**3.80**	211,862	9,102	4.30	198,747	9,307	4.68
Total investment securities	**2,725,501**	**87,416**	**3.21**	2,762,303	95,606	3.46	2,885,604	119,696	4.15
Loans: (2)									
Commercial (3) (4)	**1,309,457**	**64,783**	**4.95**	1,326,746	63,953	4.82	1,271,515	56,153	4.42
Commercial real estate	**1,370,321**	**98,897**	**7.22**	1,308,401	78,912	6.03	1,007,636	44,992	4.47
Residential real estate (5)	**1,197,046**	**53,830**	**4.50**	847,722	41,267	4.87	464,676	26,209	5.64
Consumer, net of unearned income	**985,574**	**52,907**	**5.37**	961,072	58,314	6.07	1,007,390	62,849	6.24
Total loans (4) (5)	**4,862,398**	**270,417**	**5.56**	4,443,941	242,446	5.46	3,751,217	190,203	5.07
Total earning assets	**7,617,060**	**$ 357,887**	**4.70%**	7,359,092	$ 338,414	4.60%	6,814,607	$ 310,330	4.55%
Less: Allowance for loan losses	**(56,127)**			(70,753)			(73,868)		
Non-Earning Assets									
Cash and due from banks	**156,452**			152,162			124,565		
Other assets	**1,083,165**			944,172			721,142		
Total assets	**$ 8,800,550**			$ 8,384,673			$ 7,586,446		
Interest-Bearing Liabilities									
NOW deposits	**$ 1,608,643**	**$ 485**	**0.03%**	$ 1,472,710	$ 587	0.04%	$ 1,221,352	$ 411	0.03%
Savings deposits	**1,728,887**	**3,735**	**0.22**	1,384,294	3,948	0.29	1,043,289	3,134	0.30
Money market deposits	**288,986**	**285**	**0.10**	328,550	337	0.10	361,166	357	0.10
Time deposits	**1,319,958**	**22,537**	**1.71**	1,647,729	31,039	1.88	1,753,561	44,706	2.55
Total interest-bearing deposits	**4,946,474**	**27,042**	**0.55**	4,833,283	35,911	0.74	4,379,368	48,608	1.11
Short-term borrowings	**413,921**	**539**	**0.13**	363,623	550	0.15	328,535	662	0.20
Other borrowings	**280,219**	**8,361**	**2.98**	414,902	17,259	4.16	615,006	29,162	4.74
Total interest-bearing liabilities	**$ 5,640,614**	**$ 35,942**	**0.64%**	5,611,808	$ 53,720	0.96%	5,322,909	$ 78,432	1.47%
Noninterest-Bearing Liabilities									
Demand deposits	**1,828,750**			1,555,946			1,182,653		
Other liabilities	**232,226**			215,730			211,651		
Shareholders equity	**1,098,960**			1,001,189			869,233		
Total liabilities and shareholders equity	**$ 8,800,550**			$ 8,384,673			$ 7,586,446		
Interest Margin Recap									
Interest income/average earning assets		**$ 357,887**	**4.70%**		$ 338,414	4.60%		$ 310,330	4.55%
Interest expense/average earning assets		**35,942**	**0.47**		53,720	0.73		78,432	1.15
Net interest income and margin		**$ 321,945**	**4.23%**		$ 284,694	3.87%		$ 231,898	3.40%

(1) Includes U.S. Government-sponsored entities, agency mortgage-backed securities and $30.2 million of non-agency mortgage-backed securities at December 31, 2012.

(2) Includes principal balances of nonaccrual loans. Interest income relating to nonaccrual loans is included only if received.

(3) Interest on state and political subdivision investment securities and commercial loans includes the effect of taxable equivalent adjustments of $8.8 million and $4.4 million, respectively, in 2012; $7.3 million and $4.5 million, respectively, in 2011; and $8.5 million and $5.0 million, respectively, in 2010; using the federal statutory tax rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations.

(4) Includes finance leases held for sale.

(5) Includes residential loans held for sale.

(6) Changes in fair value are reflected in the average balance; however, yield information does not give effect to changes in fair value that are reflected as a component of shareholders equity.

(7) The 2012, 2011 and 2010 average balances include $23.5 million, $146.0 million and $152.3 million, respectively, of required and excess balances held at the Federal Reserve.

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The following table shows fluctuations in net interest income attributable to changes in the average balances of assets and liabilities and the yields earned or rates paid for the years ended December 31.

NET INTEREST INCOME RATE/VOLUME ANALYSIS (tax equivalent basis, dollars in thousands)

	2012 vs. 2011			2011 vs. 2010		
	Total	Attributed to		Total	Attributed to	
	Change	Volume	Rate	Change	Volume	Rate
Interest Income						
Money market and other interest- earning investments	**$ (308)**	**$ (260)**	**$ (48)**	$ (69)	$ (59)	$ (10)
Investment securities (1)	**(8,190)**	**(1,226)**	**(6,964)**	(24,090)	(4,691)	(19,399)
Loans (1)	**27,971**	**23,051**	**4,920**	52,243	36,459	15,784
Total interest income	**19,473**	**21,565**	**(2,092)**	28,084	31,709	(3,625)
Interest Expense						
NOW deposits	**(102)**	**47**	**(149)**	176	92	84
Savings deposits	**(213)**	**863**	**(1,076)**	814	998	(184)
Money market deposits	**(52)**	**(39)**	**(13)**	(20)	(33)	13
Time deposits	**(8,502)**	**(5,885)**	**(2,617)**	(13,667)	(2,346)	(11,321)
Short-term borrowings	**(11)**	**70**	**(81)**	(112)	61	(173)
Other borrowings	**(8,898)**	**(4,810)**	**(4,088)**	(11,903)	(8,906)	(2,997)
Total interest expense	**(17,778)**	**(9,754)**	**(8,024)**	(24,712)	(10,134)	(14,578)
Net interest income	**$ 37,251**	**$ 31,319**	**$ 5,932**	$ 52,796	$ 41,843	$ 10,953

The variance not solely due to rate or volume is allocated equally between the rate and volume variances.

(1) Interest on investment securities and loans includes the effect of taxable equivalent adjustments of $8.8 million and $4.4 million, respectively, in 2012; $7.3 million and $4.5 million, respectively, in 2011; and $8.5 million and $5.0 million, respectively, in 2010; using the federal statutory rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations.

Provision for Loan Losses

The provision for loan losses was $5.0 million in 2012, a $2.5 million decrease from the $7.5 million recorded in 2011. Impacting the provision over the past twelve months are the following factors: (1) the loss factors applied to our performing loan portfolio have decreased over time as charge-offs were substantially lower, (2) the continuing trend in improved credit quality, and (3) the percentage of our legacy loan portfolio consisting of those loans where higher loss factors are applied (commercial and commercial real estate loans) fell while the percentage of our loan portfolio consisting of those loans where lower loss factors are applied (residential loans) increased. For additional information about non-performing loans, charge-offs and additional items impacting the provision, refer to the Risk Management Credit Risk section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations .

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. This source of revenue has decreased as a percentage of total revenue to 38.1% in 2012 compared to 40.1% in 2011.

Noninterest income for 2012 was $189.8 million, an increase of $6.9 million, or 3.8% compared to $182.9 million reported for 2011. The improvement in 2012 resulted from a $6.3 million increase in net securities gains, a $1.1 million increase in wealth management fees, a $1.6

million increase in investment product fees, a $1.1 million increase in revenue from company-owned life insurance and a $3.0 million increase in other income. Partially offsetting these increases were a $1.2 million decrease in debit card and ATM card fees, a $1.4 million decrease in gain on sale leaseback transactions and a $3.8 million decrease from changes in the FDIC indemnification asset.

Despite a full year of fee revenue from the Integra acquisition and a little over three months of fee revenue from Indiana Community Bancorp, service charges and overdraft fees, our largest source of noninterest income, declined to $51.5 million in 2012, a $0.4 million decrease from $51.9 million in 2011. This appears to be a negative trend in the industry and will be a focus of management in 2013.

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Net securities gains were $13.6 million during 2012 compared to $7.3 million for 2011. Included in 2012 is $15.0 million of security gains partially offset by $1.4 million of other-than-temporary-impairment charges on two pooled trust preferred securities and six non-agency mortgage-backed securities. Included in 2011 is $8.7 million of security gains partially offset by $1.4 million of other-than-temporary-impairment on one pooled trust preferred security and three non-agency mortgage-backed securities. Sales of securities continued during 2011 and 2012 as 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 securities sales were used to reduce other borrowings.

Wealth management fees, which are dependent on the managed assets performance, continue to be impacted by uncertainties in the investment markets but did increase by $1.1 million to $21.5 million in 2012. The increase was primarily due to the acquisition of Indiana Community Bancorp on September 15, 2012 and the trust business of Integra Bank on June 1, 2011.

Debit card and ATM fees decreased by $1.2 million to $24.0 million in 2012 as compared to $25.2 million in 2011. A decrease in interchange income is the primary reason for the decrease.

Investment product fees were $12.7 million in 2012 compared to $11.1 million in 2011. The increase is primarily a result of increases in mutual fund fees and other investment advisory fees as investment markets improved in 2012.

Revenue from company-owned life insurance was $6.4 million in 2012 compared to $5.3 million in 2011. We anticipate this revenue will continue to slowly improve.

The $1.4 million decrease in gain on sale leaseback transactions is primarily due to the repurchase of a branch in 2011 and acceleration of the deferred gain.

Other income increased $3.0 million in 2012 as compared to 2011. The increase was primarily as a result of increases in customer derivative fee revenue, rental income from an operating lease and other miscellaneous income.

The following table presents changes in the components of noninterest income for the years ended December 31.

NONINTEREST INCOME

				% Change From Prior Year	
(dollars in thousands)	**2012**	**2011**	**2010**	**2012**	**2011**
Wealth management fees	**$ 21,549**	$ 20,460	$ 16,120	**5.3 %**	26.9 %
Service charges on deposit accounts	**51,483**	51,862	50,018	**(0.7)**	3.7
ATM fees	**24,006**	25,199	22,967	**(4.7)**	9.7
Mortgage banking revenue	**3,742**	3,250	2,230	**15.1**	45.7
Insurance premiums and commissions	**37,103**	36,957	36,463	**0.4**	1.4
Investment product fees	**12,714**	11,068	9,192	**14.9**	20.4
Company-owned life insurance	**6,452**	5,322	4,052	**21.2**	31.3
Other income	**15,261**	12,219	7,967	**24.9**	53.4
Total fee and service charge income	**172,310**	166,337	149,009	**3.6**	11.6
Net securities gains	**15,052**	8,691	17,124	**73.2**	(49.2)
Impairment on available-for-sale securities	**(1,414)**	(1,409)	(3,927)	**(0.4)**	64.1
Gain on derivatives	**820**	974	1,492	**(15.8)**	(34.7)
Gain on sale leasebacks	**6,423**	7,864	6,452	**(18.3)**	21.9
Change in FDIC indemnification asset	**(3,375)**	426		**N/M**	N/M
Total noninterest income	**$ 189,816**	$ 182,883	$ 170,150	**3.8 %**	7.5 %
Noninterest income to total revenue (1)	**37.1%**	39.1%	42.3%		

(1) Total revenue includes the effect of a taxable equivalent adjustment of $13.2 million in 2012, $11.8 million in 2011 and $13.5 million in 2010.

N/M = Not meaningful

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Noninterest Income Related to Covered Assets

Income and expense associated with the FDIC loss sharing agreements is reflected in the change in the FDIC indemnification asset. This balance includes discount accretion, gains on the write-up of the FDIC indemnification asset, and expense from the reduction of the FDIC indemnification asset upon the removal of loans, OREO and unfunded loan commitments. Loans are removed when they have been fully paid off, fully charged off, sold or transferred to OREO. The change in the FDIC indemnification asset also includes income due to the FDIC, as well as the income statement effects of other loss share transactions.

For 2012, adjustments to the FDIC indemnification asset resulted in noninterest expense of $3.4 million. This compares to noninterest income of $0.4 million in 2011. The decrease in income is primarily the result of improvements in our loan loss expectations, which was partially offset by impairment of other real estate.

Noninterest Expense

Noninterest expense for 2012 totaled $365.8 million, an increase of $17.3 million, or 4.9% from the $348.5 million recorded in 2011. Included in 2012 is approximately $10.2 million of noninterest expense related to Indiana Community Bancorp, which was acquired on September 15, 2012. This amount includes approximately $7.8 million of acquisition and integration expenses. Also included in 2012 is approximately $26.6 million of noninterest expense for Integra Bank, which was acquired on July 29, 2011. Noninterest expense for Integra Bank for 2011 was $25.9 million. The 2011 amount for Integra Bank includes approximately $11.1 million of acquisition and integration costs. Also included in 2012 is a $6.4 million increase in expense related to the reinstatement of our performance-based incentive compensation plan.

Salaries and benefits, the largest component of noninterest expense, totaled $193.9 million in 2012, compared to $189.5 million in 2011, an increase of $4.4 million, or 2.3%. Included in 2012 is $6.0 million of salaries and benefit expense associated with former IBT associates, which includes severance and retention accruals. Partially offsetting the increase from IBT is a reduction of approximately $6.8 million in salaries and benefits expense associated with former Integra Bank associates. Also included in 2012 is a $6.4 million increase in expense related to a full year of the reinstatement of our performance-based incentive compensation plan and a $1.1 million increase in pension expense. Partially offsetting these increases are a $0.7 million decrease in restricted stock expense, a $0.2 million decrease in hospitalization expense, a $0.2 million decrease in long-term disability insurance and our cost containment efforts.

Marketing expense was $7.5 million for 2012 compared to $6.0 million for 2011. The increase is attributable to higher levels of charitable contributions and sponsorships in 2012.

Professional fees decreased $2.9 million for 2012 as compared to 2011. The decrease is primarily attributable to legal and other professional fees associated with the acquisition of Integra Bank in 2011. Continued compliance with the June 4, 2012, consent order issued by our primary regulator is expected to result in increased professional fees during the first quarter of 2013 as the Company continues to progress on this project. The consent order requires the Bank to, among other things: continue to review, update, and implement a written institution-wide, ongoing BSA/AML risk assessment that accurately identifies BSA/AML risks; ensure that Bank management reviews, updates, and implements its risk-based processes to obtain and analyze appropriate customer due diligence information to monitor for and investigate suspicious activity; ensure adherence to a written program for appropriate identification, analyzing and monitoring of transactions with greater than normal risk; maintain an effective BSA independent testing function; and ensure and maintain sufficient personnel with requisite expertise and skills who receive adequate on-going training.

Loan expense increased $2.3 million for 2012 as compared to 2011. The increase is primarily attributable to loan expense associated with the acquisition of Integra Bank.

Supply expense was $2.7 million for 2012 compared to $3.8 million for 2011. 2011 included costs associated with the acquisition of Integra Bank.

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Loss on debt extinguishment was $1.2 million higher in 2012 due to the termination of $50 million of Federal Home Loan Bank advances and related swaps in the fourth quarter of 2012, compared to minimal debt extinguishment costs in 2011.

FDIC assessment expense was $6.0 million for 2012 compared to $7.5 million for 2011. The decrease is primarily due to a lower assessment rate.

Other real estate owned expense was $17.1 million for 2012 compared to $2.0 million for 2011. The increase is primarily due to expense related to decreased valuations of other real estate owned acquired in our FDIC assisted transaction. Eighty percent of these impairment losses are reimbursable by the FDIC upon ultimate sale of the property.

The following table presents changes in the components of noninterest expense for the years ended December 31.

NONINTEREST EXPENSE

				% Change From Prior Year	
(dollars in thousands)	**2012**	**2011**	**2010**	**2012**	**2011**
Salaries and employee benefits	**$ 193,874**	$ 189,539	$ 170,601	**2.3 %**	11.1 %
Occupancy	**50,929**	51,054	46,410	**(0.2)**	10.0
Equipment	**11,744**	11,720	10,641	**0.2**	10.1
Marketing	**7,451**	5,990	5,720	**24.4**	4.7
Data processing	**22,014**	22,971	21,409	**(4.2)**	7.3
Communications	**10,939**	10,406	9,803	**5.1**	6.2
Professional fees	**12,030**	14,959	8,253	**(19.6)**	81.3
Loan expense	**7,037**	4,734	3,936	**48.6**	20.3
Supplies	**2,719**	3,762	2,935	**(27.7)**	28.2
Loss on extinguishment of debt	**1,949**	789	6,107	**N/M**	(87.1)
FDIC assessment	**5,991**	7,523	8,370	**(20.4)**	(10.1)
Other real estate owned expense	**17,136**	1,992	2,613	**N/M**	(23.8)
Amortization of intangibles	**7,941**	8,829	6,130	**(10.1)**	44.0
Other expense	**14,004**	14,253	11,377	**(1.7)**	25.3
Total noninterest expense	**$ 365,758**	$ 348,521	$ 314,305	**4.9 %**	10.9 %

Noninterest Expense Related to Covered Assets

Noninterest expense related to covered assets are included in OREO expense, legal and professional expense and other covered asset-related expenses, and may be subject to FDIC reimbursement. Expenses must meet certain FDIC criteria in order for the expense amounts to be reimbursed. Certain amounts reflected in these balances may not be reimbursed by the FDIC if they do not meet the criteria.

$828 thousand, or twenty percent of the expense associated with holding and maintaining covered assets assumed in the Integra acquisition, are not reimbursable by the FDIC and were recorded as noninterest expense during 2012. The remaining eighty percent was recorded as a receivable from the FDIC. Additional non-reimbursable expenses of $444 thousand associated with holding and maintaining covered assets assumed in the Integra acquisition were also recorded in noninterest expense during 2012.

$223 thousand, or twenty percent of the expense associated with holding and maintaining covered assets assumed in the Integra acquisition, are not reimbursable by the FDIC and were recorded as noninterest expense during 2011. The remaining eighty percent was recorded as a receivable from the FDIC. Additional non-reimbursable expenses of $133 thousand associated with holding and maintaining covered assets assumed in the Integra acquisition were also recorded in noninterest expense during 2011.

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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 tax rate was effectively the same for 2012 and 2011. See Note 12 to the consolidated financial statements for additional details on Old National s income tax provision.

Comparison of Fiscal Years 2011 and 2010

In 2011, we generated net income of $72.5 million and diluted net income per share of $0.76 compared to $38.2 million and $0.44, respectively in 2010. The 2011 earnings included a $54.5 million increase in net interest income, a $12.7 million increase in noninterest income and $23.3 million decrease in the provision for loan losses. Offsetting these increases to net income in 2011 was a $34.2 million increase in noninterest expense and a $22.0 million increase in income tax expense.

Taxable equivalent net interest income was $284.7 million in 2011, a 22.8% increase from the $231.9 million reported in 2010. The net interest margin was 3.87% for 2011, a 47 basis point increase compared to 3.40% reported for 2010. Average earning assets increased by $544.5 million during 2011 and the yield on average earning assets increased 5 basis points from 4.55% to 4.60%. Average interest-bearing liabilities increased $288.9 million and the cost of interest-bearing liabilities decreased from 1.47% to 0.96%.

The provision for loan losses was $7.5 million in 2011, a $23.3 million decrease from the $30.8 million recorded in 2010. The lower provision in 2011 was attributable to the following factors: (1) the loss factors applied to our performing loan portfolio have decreased during 2011 compared to 2010 as charge-offs were substantially lower, (2) apart from those loans acquired in our two acquisitions, which are substantially accounted for at fair value, our total loans decreased $16.2 million from December 31, 2010 to December 31, 2011, and (3) the percentage of our loan portfolio consisting of those loans where higher loss factors are applied (commercial and commercial real estate loans) fell to 48% in 2011 compared to 58% in 2010 while the percentage of our loan portfolio consisting of those loans where lower loss factors are applied (residential loans) increased to 21% in 2011 compared to 18% in 2010.

Noninterest income for 2011 was $182.9 million, an increase of $12.7 million, or 7.5% from the $170.2 million reported for 2010. Net securities gains were $7.3 million during 2011 compared to $13.2 million for 2010. Included in 2011 is $8.7 million of security gains partially offset by $1.4 million of other-than-temporary-impairment on one pooled trust preferred security and three non-agency mortgage-backed securities. Sales of securities continued during 2010 and 2011 as 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 securities sales were used to reduce other borrowings. Also affecting noninterest income in 2011 was a $4.3 million increase in wealth management fees, a $2.2 million increase in debit card and ATM card fees, a $1.8 million increase in investment product fees, a $1.8 million increase in service charges on deposit accounts and a $4.3 million increase in other income. Partially offsetting these increases was a $0.5 million decrease in gains on derivatives.

Income and expense associated with the FDIC loss sharing agreements is reflected in the change in the FDIC indemnification asset. This balance includes discount accretion, gains on the write-up of the FDIC indemnification asset, and expense from the reduction of the FDIC indemnification asset upon the removal of loans, OREO and unfunded loan commitments. Loans are removed when they have been fully paid off, fully charged off, sold or transferred to OREO. The change in the FDIC indemnification asset also includes income due to the FDIC, as well as the income statement effects of other loss share transactions. The net change in the FDIC indemnification asset was $0.4 million for 2011 and was attributable to indemnification asset accretion.

Noninterest expense for 2011 totaled $348.5 million, an increase of $34.2 million, or 10.9% from the $314.3 million recorded in 2010. The acquisition of Monroe Bancorp and Integra Bank were the primary reasons for the increase in noninterest expense. Noninterest expense for Monroe Bancorp totaled approximately $21.2 million and included $6.6 million of acquisition and integration costs. Noninterest expense for Integra Bank totaled $25.9 million from July 29, 2011 to December 31, 2011. This amount included approximately $11.1 million of acquisition and integration expenses. Also included in 2011 is a $3.6 million increase in performance-based incentive compensation expense and $2.0 million accrued for a litigation settlement.

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Noninterest expense related to covered assets are included in OREO expense, legal and professional expense and other covered asset-related expenses, and may be subject to FDIC reimbursement. Expenses must meet certain FDIC criteria in order for the expense amounts to be reimbursed. Certain amounts reflected in these balances may not be reimbursed by the FDIC if they do not meet the criteria.

$223 thousand, or twenty percent of the expense associated with holding and maintaining covered assets assumed in the Integra acquisition, are not reimbursable by the FDIC and were recorded as noninterest expense during 2011. The remaining eighty percent was recorded as a receivable from the FDIC. Additional non-reimbursable expenses of $133 thousand associated with holding and maintaining covered assets assumed in the Integra acquisition were also recorded in noninterest expense during 2011.

The provision for income taxes was $27.3 million in 2011 compared to $5.3 million in 2010. Old National s effective tax rate was 27.4% in 2011 compared to 12.1% in 2010. The effective tax rate varied significantly from 2010 to 2011 due to an increase in pre-tax income while tax-exempt income had decreased.

BUSINESS LINE RESULTS

We operate in two operating segments: community banking and treasury. The following table summarizes our business line results for the years ended December 31.

BUSINESS LINE RESULTS

(dollars in thousands)	**2012**	2011	2010
Community banking	**$ 142,378**	$ 129,446	$ 73,108
Treasury	**(17,651)**	(29,905)	(26,310)
Other	**3,058**	221	(3,318)
Income (loss) before income taxes	**$ 127,785**	$ 99,762	$ 43,480

The 2012 community banking segment profit increased $12.9 million from 2011 levels, primarily as a result of the acquisitions of Indiana Community Bancorp and Integra Bank, which occurred on July 29, 2011. The 2011 community banking segment profit increased $56.3 million from 2010 levels, primarily as a result of the acquisitions of Monroe Bancorp and Integra Bank and a decrease in provision for loan loss expense.

The 2012 treasury segment profit increased $12.3 million from 2011 primarily as a result of the $6.4 million increase in net securities gains in 2012. The 2011 treasury segment profit decreased $3.6 million from 2010 primarily as a result of the $5.9 million decrease in net securities gains in 2011.

The 2012 other segment profit increased approximately $2.8 million from 2011 primarily as a result of the increased wealth management revenue. The 2011 other segment profit increased approximately $3.5 million from 2010 primarily as a result of the increased trust business associated with the Monroe Bancorp and Integra acquisitions.

FINANCIAL CONDITION

Overview

At December 31, 2012, our total assets were $9.544 billion, a 10.8% increase from $8.610 billion at December 31, 2011. The increase is primarily a result of the acquisition of Indiana Community Bancorp, which occurred on September 15, 2012. We are continuing to reduce our reliance on higher cost deposits and other borrowings. Earning assets, comprised of investment securities, portfolio loans, loans and leases held for sale, money market investments and interest earning accounts with the Federal Reserve, were $8.200 billion at December 31, 2012, an increase of $807.1 million, or 10.9%, from $7.392 billion at December 31, 2011. The increase in earning assets is primarily a result of the acquisition of Indiana Community Bancorp. Year over year, time deposits and other borrowings, which have an average interest rate higher that 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.

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Investment Securities

We classify investment securities primarily as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we also have $56.6 million of 15- and 20-year fixed-rate mortgage pass-through securities, $173.9 million of U.S. government-sponsored entity and agency securities and $169.3 million of state and political subdivision securities in our held-to-maturity investment portfolio at December 31, 2012. During the third quarter of 2012, approximately $46.1 million of state and political subdivision securities were transferred from the held-to-maturity portfolio to the available-for-sale portfolio due to changes in circumstances associated with the Office of Management and Budget s report outlining sequestration and the implications for taxable Build America Bonds. The $1.0 million, net of tax, unrealized holding gain was reclassified out of other comprehensive income on the date of transfer.

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 $3.1 million at December 31, 2012 compared to $2.8 million at December 31, 2011.

At December 31, 2012, the investment securities portfolio was $2.945 billion compared to $2.590 billion at December 31, 2011, an increase of 13.7%. Investment securities represented 35.9% of earning assets at December 31, 2012, compared to 35.0% at December 31, 2011. Included in the investment securities portfolio at December 31, 2012 is approximately $116.4 million related to our acquisition of Indiana Community 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 securities sales were used to reduce other borrowings. 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 December 31, 2012, management does not intend to sell any securities with an unrealized loss position and does not believe the Company will be required to sell such securities.

The investment securities available-for-sale portfolio had net unrealized gains of $64.0 million at December 31, 2012, compared to net unrealized gains of $40.5 million at December 31, 2011. A $1.4 million charge was recorded during 2012 related to other-than-temporary-impairment on two pooled trust preferred securities and six non-agency mortgage-backed securities. A $1.4 million charge was recorded during 2011 related to other-than-temporary-impairment on one pooled trust preferred security and three non-agency mortgage-backed securities. See Note 1 to the consolidated financial statements for the impact of other-than-temporary-impairment in other comprehensive income and Note 3 to the consolidated financial statements for details on management s evaluation of securities for other-than-temporary-impairment.

The investment portfolio had an effective duration of 3.71% at December 31, 2012, compared to 3.63% at December 31, 2011. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. The weighted average yields on available-for-sale investment securities were 2.99% in 2012 and 3.32% in 2011. The average yields on the held-to-maturity portfolio were 3.90% in 2012 and 3.96% in 2011.

At December 31, 2012, Old National had a concentration of investment securities issued by the state of Indiana and its political subdivisions with an aggregate market value of $273.8 million, which represented 22.9% of shareholders equity. At December 31, 2011, Old National had a concentration of investment securities issued by the state of Indiana and its political subdivisions with an aggregate market value of $268.4 million, which represented 26.0% of shareholders equity. There were no other concentrations of investment securities issued by an individual state and its political subdivisions that were greater than 10% of shareholders equity.

Loan Portfolio

We lend primarily to consumers and small to medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Illinois and Kentucky.

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The following table, including covered loans, presents the composition of the loan portfolio at December 31.

LOAN PORTFOLIO AT YEAR-END

(dollars in thousands)	2012	2011	2010	2009	2008	Four-Year Growth Rate
Commercial	**$ 1,392,459**	$ 1,341,409	$ 1,211,399	$ 1,287,168	$ 1,897,966	(7.5)%
Commercial real estate	**1,438,709**	1,393,304	942,395	1,062,910	1,154,916	5.6
Consumer credit	**1,004,827**	990,061	924,952	1,082,017	1,210,951	(4.6)
Total loans excluding residential real estate	**3,835,995**	3,724,774	3,078,746	3,432,095	4,263,833	(2.6)
Residential real estate	**1,360,599**	1,042,429	664,705	403,391	496,526	28.7
Total loans	**5,196,594**	4,767,203	3,743,451	3,835,486	4,760,359	2.2 %
Less: Allowance for loan losses	**54,763**	58,060	72,309	69,548	67,087	
Net loans	**$ 5,141,831**	$ 4,709,143	$ 3,671,142	$ 3,765,938	$ 4,693,272	

Commercial and Commercial Real Estate Loans

At December 31, 2012, commercial loans increased $51.1 million while commercial real estate loans increased $45.4 million, respectively, from December 31, 2011. Included in the commercial loan total for December 31, 2012 is approximately $62.2 million related to our acquisition of Indiana Community Bancorp. Included in the commercial real estate loan total for December 31, 2012 is approximately $197.8 million related to our acquisition of Indiana Community Bancorp. During 2012, we sold $1.7 million of commercial and commercial real estate loans. Net recoveries of $0.7 million were recorded related to these sales. We sold $5.4 million of commercial and commercial real estate loans during 2011. No write-down was recorded against the allowance for loan losses related to these sales. Loan demand in our markets remains soft. However, if you exclude covered loans and the recently acquired IBT loans, we did experience modest loan growth in the commercial portfolio during 2012.

The following table presents the maturity distribution and rate sensitivity of commercial loans and an analysis of these loans that have predetermined and floating interest rates. A significant percentage of commercial loans are due within one year, reflecting the short-term nature of a large portion of these loans.

DISTRIBUTION OF COMMERCIAL LOAN MATURITIES AT DECEMBER 31, 2012

(dollars in thousands)	Within 1 Year	1 - 5 Years	Beyond 5 Years	Total
Interest rates:				
Predetermined	**$ 310,905**	**$ 254,029**	**$ 116,758**	**$ 681,692**
Floating	**444,261**	**188,472**	**78,034**	**710,767**
Total	**$ 755,166**	**$ 442,501**	**$ 194,792**	**$ 1,392,459**

Consumer Loans

Consumer loans, including automobile loans, personal and home equity loans and lines of credit, increased $14.8 million or 1.5% at December 31, 2012, compared to December 31, 2011. Included in the total for December 31, 2012 is approximately $72.8 million related to our acquisition of Indiana Community Bancorp.

Residential Real Estate Loans

Residential real estate loans, primarily 1-4 family properties, were $1.361 billion at December 31, 2012, an increase of $318.2 million or 30.5% from December 31, 2011. In addition to organic loan production, December 31, 2012 totals also include approximately $74.5 million acquired from Indiana Community 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. At December 31, 2012, this new product had an average FICO score of 779, an average loan to value ratio of 59% and an average duration of 17.4 years. We have also retained more of our loan originations to partially offset the slow loan demand from our traditional commercial customers.

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Allowance for Loan Losses

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The determination of the allowance is based upon the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events and regulatory guidance. Additional information about our Allowance for Loan Losses is included in the Risk Management Credit Risk section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes 1 and 5 to the consolidated financial statements.

At December 31, 2012, the allowance for loan losses was $54.8 million, a decrease of $3.3 million compared to $58.1 million at December 31, 2011. As a percentage of total loans, the allowance decreased to 1.05% at December 31, 2012, from 1.22% at December 31, 2011. During 2012, the provision for loan losses was $5.0 million, a decrease of $2.5 million from the $7.5 million recorded in 2011. Impacting the provision over the past twelve months are the following factors: (1) the loss factors applied to our performing loan portfolio have decreased over time as charge-offs were substantially lower, (2) the continuing trend in improved credit quality, and (3) the percentage of our legacy loan portfolio consisting of those loans where higher loss factors are applied (commercial and commercial real estate loans) fell while the percentage of our loan portfolio consisting of those loans where lower loss factors are applied (residential loans) increased.

For commercial loans, the reserve decreased by $5.3 million at December 31, 2012, compared to December 31, 2011. The reserve as a percentage of the commercial loan portfolio decreased to 1.10% at December 31, 2012, from 1.64% at December 31, 2011. For commercial real estate loans, the reserve decreased by $0.5 million at December 31, 2012, compared to December 31, 2011. The reserve as a percentage of the commercial real estate loan portfolio decreased to 2.10% at December 31, 2012, from 2.52% at December 31, 2011. Nonaccrual loans, excluding covered loans, increased $35.1 million since December 31, 2011 primarily as a result of the IBT acquisition. Criticized and classified loans increased $62.4 million from December 31, 2011, also primarily as a result of the IBT acquisition. During 2012, other classified assets, which consist of investment securities downgraded below investment grade, decreased $47.7 million.

The reserve for residential real estate loans as a percentage of that portfolio decreased to 0.28% at December 31, 2012, from 0.35% at December 31, 2011. The reserve for consumer loans decreased to 0.48% at December 31, 2012, from 0.79% at December 31, 2011.

Allowance for Losses on Unfunded Commitments

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. This allowance is reported as a liability on the balance sheet within accrued expenses and other liabilities, while the corresponding provision for these loan losses is recorded as a component of other expense. As of December 31, 2012 and 2011, the allowance for losses on unfunded commitments was $4.0 million and $4.8 million, respectively.

Residential Loans Held for Sale

At December 31, 2012, loans held for sale is made up entirely of mortgage loans held for immediate sale in the secondary market with servicing released. These loans are sold at or prior to origination at a contracted price to an outside investor on a best efforts basis and remain on the Company s balance sheet for a short period of time (typically 30 to 60 days). These loans are sold without recourse and the Company has experienced minimal requests to repurchase loans due to the standard representations and warranties and have experienced no material losses. Mortgage originations are subject to volatility due to interest rates and home sales. Residential loans held for sale have declined since the end of 2009, as we have retained certain of our loan originations to partially offset the slow loan demand from our traditional commercial customers. Residential loans held for sale were $12.6 million at December 31, 2012, compared to $4.5 million at December 31, 2011.

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We elected the fair value option under FASB ASC 825-10, Financial Instruments (SFAS No. 159) for residential loans held for sale. The aggregate fair value exceeded the unpaid principal balances by $0.4 million as of December 31, 2012. At December 31, 2011, the aggregate fair value exceeded the unpaid principal balance by $0.1 million.

Covered Assets

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC assisted transaction. The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned (OREO). Loans comprise the majority of the assets acquired and are subject to loss share agreements with the FDIC whereby Old National is indemnified against 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0% reimbursement, and 80% of losses in excess of $467.2 million with respect to covered assets. As of December 31, 2012, we do not expect losses to exceed $275.0 million.

A summary of covered assets is presented below:

(dollars in thousands)	December 31, 2012	December 31, 2011
Loans, net of discount & allowance	$ 366,617	$ 625,417
Other real estate owned	26,137	30,443
Total covered assets	$ 392,754	$ 655,860

FDIC Indemnification Asset

Because the FDIC will reimburse Old National for losses incurred on certain acquired loans, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The indemnification asset, on the acquisition date, reflects the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. Reimbursement claims are submitted to the FDIC and the receivable is reduced when the FDIC pays the claim. At December 31, 2012, the FDIC indemnification asset was $115.7 million and was comprised of a $107.4 million FDIC indemnification asset and a $8.3 million FDIC loss share receivable. The loss share receivable represents the current reimbursable amounts from the FDIC that have not yet been received. The indemnification asset represents the cash flows the Company expects to collect from the FDIC under the loss sharing agreements and the amount related to the estimated improvements in cash flow expectations that are being amortized over the same period for which those improved cash flows are being accreted into income. At December 31, 2012, $99.5 million of the FDIC indemnification asset is related to expected indemnification payments and $7.9 million is expected to be amortized against future accreted interest income.

A summary of activity for the indemnification asset and loss share receivable is presented below:

(dollars in thousands)	
Balance at January 1, 2012	$ 167,714
Adjustments not reflected in income	
Established through acquisitions	
Cash received from the FDIC	(48,223)
Other	(378)
Adjustments reflected in income	
(Amortization) accretion	(13,128)
Impairment	1,069
Write-downs/sale of other real estate	12,637
Recovery amounts due to FDIC	(3,223)
Other	(730)

Balance at December 31, 2012	$ 115,738

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at December 31, 2012, totaled $368.0 million, an increase of $81.2 million compared to $286.8 million at December 31, 2011. During the third quarter of 2012, we recorded $88.7 million of goodwill and other intangible assets associated with the acquisition of Indiana Community Bancorp, of which $86.0 million is included in the Community Banking column and $2.7 million is included in the Other column for segment reporting.

Assets Held for Sale

Assets held for sale were $15.0 million at December 31, 2012 compared to $16.9 million at December 31, 2011. Included in assets held for sale are thirteen financial centers associated with the Integra acquisition, four facilities associated with the Monroe Bancorp acquisition and two facilities associated with the Indiana Community Bancorp acquisition.

Other Assets

Other assets have increased $27.6 million, or 13.2%, since December 31, 2011 primarily as a result of an increase in deferred tax assets, which was partially offset by fluctuations in the fair value of derivative financial instruments.

Funding

Total average funding, comprised of deposits and wholesale borrowings, was $7.469 billion at December 31, 2012, an increase of 4.2% from $7.168 billion at December 31, 2011. Total deposits were $7.279 billion, including $5.998 billion in transaction accounts and $1.281 billion in time deposits at December 31, 2012. Total deposits increased 10.1% or $667.4 million compared to December 31, 2011. Included in total deposits at December 31, 2012 are $642.1 million from the acquisition of Indiana Community Bancorp. Noninterest-bearing demand deposits increased 16.2% or $279.2 million compared to December 31, 2011. Savings deposits increased 19.0% or $299.0 million. NOW deposits increased 16.5% or $258.6 million compared to December 31, 2011. Money market deposits decreased 1.0%, or $3.0 million, while time deposits decreased 11.5% or $166.4 million compared to December 31, 2011. We continue to experience an increase in noninterest-bearing demand deposits.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. Wholesale borrowing as a percentage of total funding was 10.2% at December 31, 2012, compared to 9.8% at December 31, 2011. Included in wholesale funding at December 31, 2012 is $17.9 million from the acquisition of Indiana Community Bancorp. Short-term borrowings have increased $165.0 million since December 31, 2011 while long-term borrowings have decreased $53.3 million compared to December 31, 2011. During the fourth quarter of 2012, we terminated $50.0 million of FHLB advances. On June 30, 2012 we redeemed $13.0 million of subordinated notes and $3.0 million of trust preferred securities. During 2011, we prepaid $119.2 million of FHLB advances and $80.0 million of structured repurchase agreements. In the fourth quarter of 2011, $150.0 million of subordinated bank notes matured. See Notes 10 and 11 to the consolidated financial statements for additional details on our financing activities.

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The following table presents changes in the average balances of all funding sources for the years ended December 31.

FUNDING SOURCES AVERAGE BALANCES

(dollars in thousands)	2012	2011	2010	% Change From Prior Year 2012	% Change From Prior Year 2011
Demand deposits	**$ 1,828,750**	$ 1,555,946	$ 1,182,653	**17.5 %**	31.6 %
NOW deposits	**1,608,643**	1,472,710	1,221,352	**9.2**	20.6
Savings deposits	**1,728,887**	1,384,294	1,043,289	**24.9**	32.7
Money market deposits	**288,986**	328,550	361,166	**(12.0)**	(9.0)
Time deposits	**1,319,958**	1,647,729	1,753,561	**(19.9)**	(6.0)
Total deposits	**6,775,224**	6,389,229	5,562,021	**6.0**	14.9
Short-term borrowings	**413,921**	363,623	328,535	**13.8**	10.7
Other borrowings	**280,219**	414,902	615,006	**(32.5)**	(32.5)
Total funding sources	**$ 7,469,364**	$ 7,167,754	$ 6,505,562	**4.2 %**	10.2 %

The following table presents a maturity distribution for certificates of deposit with denominations of $100,000 or more at December 31.

CERTIFICATES OF DEPOSIT, $100,000 AND OVER

(dollars in thousands)	Year-End Balance	Maturity Distribution 1-90 Days	91-180 Days	181-365 Days	Beyond 1 Year
2012	$ 365,458	$ 53,790	$ 50,926	$ 118,818	$ 141,924
2011	421,874	64,423	80,925	87,799	188,727
2010	466,293	73,376	30,591	121,153	241,173

Capital

Shareholders equity totaled $1.195 billion or 12.5% of total assets at December 31, 2012, and $1.034 billion or 12.0% of total assets at December 31, 2011. The December 31, 2012 balance includes approximately $88.5 million from the approximately 6.6 million shares of common stock that were issued in the acquisition of Indiana Community Bancorp.

We paid cash dividends of $0.36 per share in 2012, which decreased equity by $34.7 million. We declared cash dividends on common stock of $0.28 per share in 2011, which decreased equity by $26.5 million. We repurchased shares of our stock, reducing shareholders equity by $4.0 million in 2012 and $1.5 million in 2011. During the fourth quarter of 2012, we repurchased 250,000 shares of our common stock under our buyback program. The remaining repurchases related primarily to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by $13.0 million in 2012 and increased equity by $19.9 million in 2011. Shares issued for reinvested dividends, stock options, restricted stock and stock compensation plans increased shareholders equity by $4.7 million in 2012, compared to $4.0 million in 2011.

Capital Adequacy

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. For additional information on capital adequacy see Note 21 to the consolidated financial statements.

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RISK MANAGEMENT

Overview

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

Credit Risk

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

Investment Activities

Within our securities portfolio, the non-agency collateralized mortgage obligations represent the greatest exposure to the current instability in the residential real estate and credit markets. At December 31, 2012, we had seven non-agency collateralized mortgage obligations with a market value of $30.2 million, or approximately 1.2% of the available-for-sale securities portfolio. Six of these securities are rated below investment grade. The unrealized gain on these securities at December 31, 2012, was approximately $0.8 million.

While the overall residential real estate market has stabilized, we expect conditions to remain uncertain for the foreseeable future. Deterioration in the performance of the underlying loan collateral could result in deterioration in the performance of our asset-backed securities. Six non-agency mortgage-backed securities were rated below investment grade as of December 31, 2012. During the third quarter of 2012, we sold three non-agency mortgage-backed securities with an amortized cost of approximately $39.5 million that were below investment grade. During the second quarter of 2012, we sold one non-agency mortgage-backed security with an amortized cost of approximately $1.4 million that was below investment grade. During 2012, we experienced $0.9 million of other-than-temporary-impairment losses on six of these securities, all of which was recorded as a credit loss in earnings. During 2011, we experienced $2.3 million of other-than-temporary-impairment losses on three of these securities, of which $0.5 million was recorded as a credit loss in earnings and $1.8 million is included in other comprehensive income.

We also carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and the performance of the underlying collateral. At December 31, 2012, we had pooled trust preferred securities with a fair value of approximately $9.4 million, or 0.4% of the available-for-sale securities portfolio. During 2012, we experienced $0.5 million of other-than-temporary-impairment on two of these securities, all of which was recorded as a credit loss in earnings. These securities remained classified as available-for-sale and at December 31, 2012, the unrealized loss on our pooled trust preferred securities was approximately $15.5 million. During 2011, we experienced $0.9 million of other-than-temporary-impairment on one of these securities, all of which was recorded as a credit loss in earnings.

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

Included in the held-to-maturity category at December 31, 2012 are approximately $56.6 million of agency mortgage-backed securities and $169.3 million of municipal securities at amortized cost.

Counterparty Exposure

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation in a financial transaction. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National s net counterparty exposure was an asset of $514.1 million at December 31, 2012.

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Lending Activities

Commercial

Commercial and industrial loans are made primarily for the purpose of financing equipment acquisition, expansion, working capital, and other general business purposes. Lease financing consists of direct financing leases and are used by commercial customers to finance capital purchases ranging from computer equipment to transportation equipment. The credit decisions for these transactions are based upon an assessment of the overall financial capacity of the applicant. A determination is made as to the applicant s ability to repay in accordance with the proposed terms as well as an overall assessment of the risks involved. In addition to an evaluation of the applicant s financial condition, a determination is made of the probable adequacy of the primary and secondary sources of repayment, such as additional collateral or personal guarantees, to be relied upon in the transaction. Credit agency reports of the applicant s credit history supplement the analysis of the applicant s creditworthiness.

Commercial mortgages and construction loans are offered to real estate investors, developers, and builders primarily domiciled in the geographic market areas we serve, primarily Indiana, Illinois and Kentucky. These loans are secured by first mortgages on real estate at loan-to-value (LTV) margins deemed appropriate for the property type, quality, location and sponsorship. Generally, these LTV ratios do not exceed 80%. The commercial properties are predominantly non-residential properties such as retail centers, apartments, industrial properties and, to a lesser extent, more specialized properties. Substantially all of our commercial real estate loans are secured by properties located in our primary market area.

In the underwriting of our commercial real estate loans, we obtain appraisals for the underlying properties. Decisions to lend are based on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we primarily emphasize the ratio of the property s projected net cash flows to the loan s debt service requirement. The debt service coverage ratio normally is not less than 120% and it is computed after deduction for a vacancy factor and property expenses as appropriate. In addition, a personal guarantee of the loan or a portion thereof is often required from the principal(s) of the borrower. We require title insurance insuring the priority of our lien, fire, and extended coverage casualty insurance, and flood insurance, if appropriate, in order to protect our security interest in the underlying property. In addition, business interruption insurance or other insurance may be required.

Construction loans are underwritten against projected cash flows derived from rental income, business income from an owner-occupant or the sale of the property to an end-user. We may mitigate the risks associated with these types of loans by requiring fixed-price construction contracts, performance and payment bonding, controlled disbursements, and pre-sale contracts or pre-lease agreements.

Consumer

We offer a variety of first mortgage and junior lien loans to consumers within our markets, with residential home mortgages comprising our largest consumer loan category. These loans are secured by a primary residence and are underwritten using traditional underwriting systems to assess the credit risks of the consumer. Decisions are primarily based on LTV ratios, debt-to-income (DTI) ratios, liquidity and credit scores. A maximum LTV ratio of 80% is generally required, although higher levels are permitted with mortgage insurance or other mitigating factors. We offer fixed rate mortgages and variable rate mortgages with interest rates that are subject to change every year after the first, third, fifth, or seventh year, depending on the product and are based on fully-indexed rates such as the London Interbank Offered Rate (LIBOR). We do not offer interest-only loans, payment-option facilities, sub-prime loans, or any product with negative amortization.

Home equity loans are secured primarily by second mortgages on residential property of the borrower. The underwriting terms for the home equity product generally permits borrowing availability, in the aggregate, up to 90% of the appraised value of the collateral property at the time of origination. We offer fixed and variable rate home equity loans, with variable rate loans underwritten at fully-indexed rates. Decisions are primarily based on LTV ratios, DTI ratios, liquidity, and credit scores. We do not offer home equity loan products with reduced documentation.

Automobile loans include loans and leases secured by new or used automobiles. We originate automobile loans and leases primarily on an indirect basis through selected dealerships. We require borrowers to maintain collision insurance on automobiles securing consumer loans, with us listed as loss payee. Our procedures for underwriting automobile loans include an assessment of an applicant s overall financial capacity, including credit history and the ability to meet existing obligations and payments on the proposed loan. Although an applicant s creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral security to the proposed loan amount.

Asset Quality

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

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. At December 31, 2012, we had no concentration of loans in any single industry exceeding 10% of our portfolio and had no exposure to foreign borrowers or sovereign debt. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Illinois and Kentucky. We continue to be affected by weakness in the economy of our principal markets. Management expects that trends in under-performing, criticized and classified loans will be influenced by the degree to which the economy strengthens or weakens.

On January 1, 2011, Old National closed on its acquisition of Monroe Bancorp. As of December 31, 2012, acquired loans totaled $335.0 million and there was $0.6 million of other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. Old National reviewed the acquired loans and determined that as of December 31, 2012, $5.2 million met the definition of criticized, $5.7 million were considered classified, and $21.3 million were doubtful. Our current preference would be to work these loans and avoid foreclosure actions unless additional credit deterioration becomes apparent. These assets are included in our summary of under-performing, criticized and classified assets found below.

During the third quarter of 2011, Old National acquired the banking operations of Integra Bank in an FDIC assisted transaction. As of December 31, 2012, acquired loans totaled $417.7 million and there was $26.1 million of other real estate owned. The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. At December 31, 2012, approximately $366.6 million of loans, net of allowance, and $26.1 million of other real estate owned are covered by the loss sharing agreements. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 80% of losses up to $275.0 million. These covered assets are included in our summary of under-performing, criticized and classified assets found below.

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On September 15, 2012, Old National closed on its acquisition of Indiana Community Bancorp (IBT). As of December 31, 2012, acquired loans totaled $407.2 million and there was $2.0 million of other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. Old National reviewed the acquired loans and determined that as of December 31, 2012, $15.3 million met the definition of criticized, $23.9 million were considered classified, and $57.7 million were doubtful. Our current preference would be to work these loans and avoid foreclosure actions unless additional credit deterioration becomes apparent. These assets are included in our summary of under-performing, criticized and classified assets found below.

Summary of under-performing, criticized and classified assets:

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ASSET QUALITY

(dollars in thousands)	2012	2011	2010	2009	2008
Nonaccrual loans					
Commercial	**$ 36,766**	$ 34,104	$ 25,488	$ 24,257	$ 20,276
Commercial real estate	**95,829**	66,187	30,416	24,854	32,118
Residential real estate	**11,986**	10,247	8,719	9,621	5,474
Consumer	**5,809**	4,790	6,322	8,284	6,173
Covered loans (5)	**103,946**	182,880			
Total nonaccrual loans (6)	**254,336**	298,208	70,945	67,016	64,041
Renegotiated loans not on nonaccrual					
Noncovered loans	**9,155**	1,325			
Covered loans	**35**				
Past due loans still accruing (90 days or more):					
Commercial	**322**	358	79	1,754	848
Commercial real estate	**236**	279		72	143
Residential real estate	**66**				
Consumer	**438**	473	493	1,675	1,917
Covered loans (5)	**15**	2,338			
Total past due loans	**1,077**	3,448	572	3,501	2,908
Other real estate owned	**11,179**	7,119	5,591	8,149	2,934
Other real estate owned, covered (5)	**26,137**	30,443			
Total under-performing assets	**$ 301,919**	$ 340,543	$ 77,108	$ 78,666	$ 69,883
Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans)	**$ 233,445**	$ 204,120	$ 174,341	$ 157,063	$ 180,118
Classified loans, covered (5)	**121,977**	200,221			
Other classified assets (3)	**59,202**	106,880	105,572	161,160	34,543
Criticized loans	**113,264**	80,148	84,017	103,512	124,855
Criticized loans, covered (5)	**9,344**	23,034			
Total criticized and classified assets	**$ 537,232**	$ 614,403	$ 363,930	$ 421,735	$ 339,516
Asset Quality Ratios including covered assets:					
Non-performing loans/total loans (1) (2)	**5.07%**	6.28%	1.90%	1.75%	1.35%
Under-performing assets/total loans and foreclosed properties (1)	**5.77**	7.09	2.06	2.05	1.47
Under-performing assets/total assets	**3.16**	3.96	1.06	0.98	0.89
Allowance for loan losses/ under-performing assets (4)	**18.14**	17.05	93.78	88.41	96.00
Asset Quality Ratios excluding covered assets:					
Non-performing loans/total loans (1) (2)	**3.31**	2.82	1.90	1.75	1.35
Under-performing assets/total loans and foreclosed properties (1)	**3.55**	3.01	2.06	2.05	1.47
Under-performing assets/total assets	**1.80**	1.45	1.06	0.98	0.89
Allowance for loan losses/ under-performing assets (4)	**28.55**	45.74	93.78	88.41	96.00

(1) Loans exclude residential loans held for sale and leases held for sale.
(2) Non-performing loans include nonaccrual and renegotiated loans.
(3) Includes 6 pooled trust preferred securities, 6 non-agency mortgage-backed securities and 4 corporate securities at December 31, 2012.

(4) Because the acquired loans from Monroe, Integra and Indiana Community were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date.

(5) The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans and other real estate owned. At December 31, 2012, we expect eighty percent of any losses incurred on these covered assets to be reimbursed to Old National by the FDIC.

(6) Includes approximately $156.8 million of purchased credit impaired loans that are categorized as nonaccrual because the collection of principal or interest is doubtful. These loans are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

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Nonaccrual loans decreased $43.9 million from December 31, 2011 to December 31, 2012 primarily as a result of a decrease in our covered nonaccrual loans. Included in nonaccrual loans at December 31, 2012 is $57.7 million related to the loans acquired from Indiana Community Bancorp.

Interest income of approximately $6.0 million and $8.1 million would have been recorded on nonaccrual and renegotiated loans outstanding at December 31, 2012 and 2011, respectively, if such loans had been accruing interest throughout the year in accordance with their original terms. Excluding purchased credit impaired loans accounted for under ASC 310-30, the amount of interest income actually recorded on nonaccrual and renegotiated loans was $1.7 million and $1.8 million in 2012 and 2011, respectively. Approximately $243.0 million, or 95.5%, of nonaccrual loans were less than thirty days delinquent at December 31, 2012. We had $22.1 million of renegotiated loans which are included in nonaccrual loans at December 31, 2012 and $11.7 million of renegotiated loans which were included in nonaccrual loans at December 31, 2011.

Criticized and classified assets decreased $77.2 million from December 31, 2011 to December 31, 2012, primarily as a result of decreases in covered criticized and classified assets and other classified assets. Included in criticized and classified assets at December 31 2012 is $96.9 million related to the loans acquired from Indiana Community Bancorp. Other classified assets include investment securities that fell below investment grade rating.

Other real estate owned (OREO) decreased $0.2 million from December 31, 2011 to December 31, 2012. Included in other real estate owned at December 31, 2012 is $2.0 million related to the Indiana Community Bancorp acquisition.

Old National may choose to restructure the contractual terms of certain loans. 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.

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. During the twelve months ended December 31, 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate of new debt with similar risk, or a permanent reduction of the recorded investment of the loan.

Loans modified in a troubled debt restructuring are typically 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 for six months.

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, whichever is earlier.

For commercial and industrial troubled debt restructurings, an allocated reserve is established within the allowance for loan losses for the difference between the carrying value of the loan and its computed fair value. To determine the fair value of the loan, one of the following methods is selected: (1) the present value of expected cash flows discounted at the loan s original effective interest rate, (2) the loan s observable market price, or (3) the fair value of the collateral value, if the loan is collateral dependent. The allocated reserve is established as the difference between the carrying value of the loan and the collectable value. If there are significant changes in the amount or timing of the loan s expected future cash flows, impairment is recalculated and the valuation allowance is adjusted accordingly.

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For consumer and residential troubled debt restructurings, an additional amount is added to the loan loss reserve that represents the difference in the present value of the cash flows between the original terms and the new terms of the modified loan, using the original effective interest rate of the loan as a discount rate.

At December 31, 2012, our troubled debt restructurings consisted of $12.7 million of commercial loans, $18.4 million of commercial real estate loans, $0.5 million of consumer loans and $0.5 million of residential loans, totaling $32.1 million. Approximately $22.1 million of the troubled debt restructurings at December 31, 2012 were included with nonaccrual loans. As of December 31, 2012, Old National has allocated specific reserves of $3.7 million to commercial loans and $0.8 million to commercial real estate loans for loans that have been modified in troubled debt restructurings. At December 31, 2011, our troubled debt restructurings consisted of $7.1 million of commercial loans, $5.8 million of commercial real estate loans and $0.1 million of consumer loans, totaling $13.0 million. Approximately $11.7 million of the troubled debt restructurings at December 31, 2011 were included with nonaccrual loans. As of December 31, 2011, Old National has allocated specific reserves of $1.3 million to commercial loans and $0.2 million to commercial real estate loans for loans that have been modified in troubled debt restructurings.

The terms of certain other loans were modified during the twelve months ended December 31, 2012 that did not meet the definition of a troubled debt restructuring. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under the Company s internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or if the delay in a payment was 90 days or less.

Purchased credit impaired (PCI) loans would not be considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the purchased credit impaired loan is being accounted for as part of a pool, it will not be removed from the pool.

In general, once a modified loan is considered a TDR, the loan will always be considered a TDR, and therefore impaired, until it is paid in full, otherwise settled, sold or charged off. However, our policy also permits for loans to be removed from troubled debt restructuring status in the years following the restructuring if the following two conditions are met: (1) The restructuring agreement specifies an interest rate equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk, and (2) the loan is not impaired based on the terms specified by the restructuring agreement.

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The allowance 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.

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The activity in our allowance for loan losses is as follows:

ALLOWANCE FOR LOAN LOSSES

(dollars in thousands)	2012	2011	2010	2009	2008
Balance, January 1	**$ 58,060**	$ 72,309	$ 69,548	$ 67,087	$ 56,463
Loans charged-off:					
Commercial	**7,636**	10,300	11,967	36,682	12,402
Commercial real estate	**4,386**	12,319	10,196	21,886	21,991
Residential real estate	**2,204**	1,945	2,296	1,315	1,442
Consumer credit	**8,094**	10,335	16,848	18,156	15,385
Write-downs on loans transferred to held for sale				572	
Total charge-offs	**22,320**	34,899	41,307	78,611	51,220
Recoveries on charged-off loans:					
Commercial	**5,166**	4,330	5,060	4,865	2,689
Commercial real estate	**5,104**	2,302	2,041	7,458	2,570
Residential real estate	**464**	319	172	135	272
Consumer credit	**3,259**	6,226	6,014	5,334	4,849
Total recoveries	**13,993**	13,177	13,287	17,792	10,380
Net charge-offs	**8,327**	21,722	28,020	60,819	40,840
Provision charged to expense	**5,030**	7,473	30,781	63,280	51,464
Balance, December 31	**$ 54,763**	$ 58,060	$ 72,309	$ 69,548	$ 67,087
Average loans for the year (1)	**$ 4,857,522**	$ 4,440,467	$ 3,722,861	$ 4,330,247	$ 4,695,950
Asset Quality Ratios:					
Allowance/year-end loans (1)	**1.05%**	1.22%	1.93%	1.81%	1.41%
Allowance/average loans (1)	**1.13**	1.31	1.94	1.61	1.43
Net charge-offs/average loans (2)	**0.17**	0.49	0.75	1.40	0.87

(1) Loans exclude residential loans held for sale and leases held for sale.
(2) Net charge-offs include write-downs on loans transferred to held for sale.

In conjunction with the significant decrease in impaired assets during since 2011, the allowance for loan losses declined $3.3 million, or 5.7%, from December 31, 2011 to December 31, 2012. The lower allowance for loan losses and provision expense were attributable to the following factors: (1) the loss factors applied to our performing loan portfolio have decreased over time as charge-offs were substantially lower, (2) the continuing trend in improved credit quality, and (3) the percentage of our legacy loan portfolio consisting of those loans where higher loss factors are applied (commercial and commercial real estate loans) fell while the percentage of our loan portfolio consisting of those loans where lower loss factors are applied (residential loans) increased.

Net charge-offs totaled $8.3 million in 2012 and $21.7 million in 2011. There were no industry segments representing a significant share of total net charge-offs. Net charge-offs to average loans declined to 0.17% for 2012 compared to 0.49% for 2011. The allowance to average loans, which ranged from 1.13% to 1.94% for the last five years, was 1.13% at December 31, 2012. Management will continue its efforts to reduce the level of non-performing loans and may consider the possibility of additional sales of troubled and non-performing loans, which could result in additional write-downs to the allowance for loan losses.

Because the acquired loans from Monroe Bancorp, Integra Bank and Indiana Community Bancorp were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date. As the fair value mark is accreted into income over future periods, a reserve will be established to absorb credit deterioration or adverse changes in expected cash flows. Through December 31, 2012, $4.3 million and $5.7 million had been reserved for these purchased credits from Monroe Bancorp and Integra Bank, respectively.

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The following table provides additional details of the following components of the allowance for loan losses, including FAS 5 (Accounting for Contingencies), FAS 114 (Accounting by Creditors for Impairment of a Loan) and SOP 03-3 (Accounting for Certain Loans or Debt Securities Acquired in a Transfer):

			Purchased Loans					
	Legacy		Covered			Non-covered		
(dollars in thousands)	FAS 5	FAS 114	FAS 5	FAS 114	SOP 03-3	FAS 5	FAS 114	SOP 03-3
Loan balance	$ 3,987,266	$ 49,432	$ 117,095	$ 405	$ 254,833	$ 672,377	$ 23,725	$ 91,461
Remaining purchase discount			9,392		135,063	29,684	11,813	38,128
Allowance, January 1, 2012	43,920	11,027			943	325	167	1,678
Charge-offs	(8,681)	(6,942)	(1,952)		1,007	(1,130)	(2,126)	(2,496)
Recoveries	6,041	6,215	132		(412)	544	836	637
Provision expense	(4,880)	(1,930)	1,820		4,178	312	1,045	4,485
Allowance, December 31, 2012	$ 36,400	$ 8,370	$	$	$ 5,716	$ 51	($ 78)	$ 4,304

We also maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. The $4.0 million reserve for unfunded loan commitments at December 31, 2012 is classified as a liability account on the balance sheet. The reserve for unfunded loan commitments was $4.8 million at December 31, 2011. The lower reserve is the result of improved loss rates.

The following table details the allowance for loan losses by loan category and the percent of loans in each category compared to total loans at December 31.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES BY CATEGORY OF LOANS

AND THE PERCENTAGE OF LOANS BY CATEGORY TO TOTAL LOANS

	2012		**2011**		**2010**		**2009**		**2008**	
(dollars in thousands)	**Amount**	**Percent of Loans to Total Loans**	**Amount**	**Percent of Loans to Total Loans**	**Amount**	**Percent of Loans to Total Loans**	**Amount**	**Percent of Loans to Total Loans**	**Amount**	**Percent of Loans to Total Loans**
Commercial	**$ 14,642**	**25.7 %**	$ 19,959	25.5 %	$ 26,204	32.3 %	$ 26,869	33.6 %	$ 29,254	39.9 %
Commercial real estate	**26,391**	**24.2**	26,862	22.4	32,654	25.2	27,138	27.7	22,362	24.2
Residential real estate	**3,677**	**25.5**	3,516	20.9	2,309	17.8	1,688	10.5	2,067	10.4
Consumer credit	**4,337**	**17.4**	6,780	18.1	11,142	24.7	13,853	28.2	13,404	25.5
Covered loans	**5,716**	**7.2**	943	13.1						
Total	**$ 54,763**	**100.0 %**	$ 58,060	100.0 %	$ 72,309	100.0 %	$ 69,548	100.0 %	$ 67,087	100.0 %

Market Risk

Market risk is the risk that the estimated fair value of our assets, liabilities, and derivative financial instruments will decline as a result of changes in interest rates or financial market volatility, or that our net income will be significantly reduced by interest rate changes.

The objective of our interest rate management process is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

Potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our normal business activities of gathering deposits and extending loans. Many factors affect our exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and re-pricing characteristics of financial instruments. Our earnings can also be affected by the monetary and fiscal policies of the U.S. Government and its agencies, particularly the Federal Reserve Board.

In managing interest rate risk, we, through the Funds Management Committee, a committee of the Board of Directors, establish guidelines, for asset and liability management, including measurement of short and long-term sensitivities to changes in interest rates. Based on the results of our analysis, we may use different techniques to manage changing trends in interest rates including:

- adjusting balance sheet mix or altering interest rate characteristics of assets and liabilities;
- changing product pricing strategies;
- modifying characteristics of the investment securities portfolio; or
- using derivative financial instruments, to a limited degree.

A key element in our ongoing process is to measure and monitor interest rate risk using a Net Interest Income at Risk simulation to model the interest rate sensitivity of the balance sheet and to quantify the impact of changing interest rates on the Company. The model quantifies the effects of various possible interest rate scenarios on projected net interest income over a one-year and a two-year cumulative horizon. The model assumes a semi-static balance sheet and measures the impact on net interest income relative to a base case scenario of hypothetical changes in interest rates over 24 months. The scenarios include prepayment assumptions, changes in the level of interest rates, the shape of the yield curve, and spreads between market interest rates in order to capture the impact from re-pricing, yield curve, option, and basis risks.

Our simulation scenarios assume the following market interest rates with an instantaneous shift from current interest rates.

	Hypothetical LIBOR/Swap Yield Curves, December 31, 2012								
	3-Month	6-Month	1-Year	2-Year	3-Year	5-Year	10-Year	20-Year	30-Year
+ 3.00%	3.31%	3.51%	3.84%	3.39%	3.50%	3.86%	4.84%	5.61%	5.80%
+ 2.00%	2.31%	2.51%	2.84%	2.39%	2.50%	2.86%	3.84%	4.61%	4.80%
+ 1.00%	1.31%	1.51%	1.84%	1.39%	1.50%	1.86%	2.84%	3.61%	3.80%
Yield Curve at 12/31	0.31%	0.51%	0.84%	0.39%	0.50%	0.86%	1.84%	2.61%	2.80%
- 1.00%	NA	NA	NA	NA	NA	NA	NA	NA	NA
100 bp flattening of curve									
Short end	1.31%	1.51%	1.84%	1.39%	0.50%	0.86%	1.84%	2.61%	2.80%
Long end	0.31%	0.51%	0.84%	0.39%	0.50%	0.86%	0.84%	1.61%	1.80%
100 bp steepening of curve									
Short end	0.00%	0.00%	0.00%	0.00%	0.50%	0.86%	1.84%	2.61%	2.80%
Long end	0.31%	0.51%	0.84%	0.39%	0.50%	0.86%	2.84%	3.61%	3.80%

A key element in the measurement and modeling of interest rate risk are the re-pricing assumptions of our transaction deposit accounts, which have no contractual maturity dates. We assume this deposit base is comprised of both core and more volatile balances and consists of both non-interest bearing and interest bearing accounts. Core deposit balances are assumed to be less interest rate sensitive and provide longer term funding. Volatile balances are assumed to be more interest rate sensitive and shorter in term. As part of our semi-static balance sheet modeling, we assume interest rates paid on the volatile deposits move in conjunction with changes in interest rates, in order to retain these deposits. This may include current non-interest bearing accounts.

Results of our simulation modeling project that our net interest income could change as follows over one-year and two-year horizons, relative to our base case scenarios at December 31st.

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	Changes in Net Interest Income One Year Horizon					
	12/31/2012			12/31/2011		
Immediate Change in the Level of Interest Rates	Net Interest Income (000s)	$ Change (000s)	% Change	Net Interest Income (000s)	$ Change (000s)	% Change
+ 3.00%	243,859	(18,361)	-7.00%	244,698	(10,636)	-4.17%
+ 2.00%	252,653	(9,567)	-3.65%	250,677	(4,657)	-1.82%
+ 1.00%	261,770	(451)	-0.17%	256,623	1,288	0.50%
Yield Curve at 12/31	262,220		0.00%	255,335		0.00%
- 1.00%	NA	NA	NA	NA	NA	NA
100 bp flattening of curve						
Short end	256,099	(6,121)	-2.33%	NA	NA	NA
Long end	258,273	(3,947)	-1.51%	NA	NA	NA
100 bp steepening of curve						
Short end	260,493	(1,727)	-0.66%	NA	NA	NA
Long end	265,748	3,528	1.35%	NA	NA	NA

	Changes in Net Interest Income Two Year Cumulative Horizon					
	12/31/2012			12/31/2011		
Immediate Change in the Level of Interest Rates	Net Interest Income (000s)	$ Change (000s)	% Change	Net Interest Income (000s)	$ Change (000s)	% Change
+ 3.00%	502,180	(15,156)	-2.93%	498,109	(4,365)	-0.87%
+ 2.00%	516,920	(416)	-0.08%	507,800	5,326	1.06%
+ 1.00%	527,570	10,234	1.98%	513,313	10,839	2.16%
Yield Curve at 12/31	517,336		0.00%	502,474		0.00%
- 1.00%	NA	NA	NA	NA	NA	NA
100 bp flattening of curve						
Short end	510,702	(6,634)	-1.28%	NA	NA	NA
Long end	504,763	(12,573)	-2.43%	NA	NA	NA
100 bp steepening of curve						
Short end	512,084	(5,252)	-1.02%	NA	NA	NA
Long end	528,747	11,411	2.21%	NA	NA	NA

At December 31, 2012, our simulated exposure to an increase in interest rates shows that an immediate increase in rates of 1.00% will decrease our net interest income by $0.5 million (-0.17%) over a one year horizon compared to our base case scenario. Rate increases of 2.00% and 3.00% would cause net interest income to decline by $9.6 million (-3.65%), and $18.4 million (-7.00%) respectively. Over a two-year horizon, the model reflects increases in net interest income of $10.2 million (1.98%) over base case, for the up 1.00%. For the up 2.00% scenario, net interest income decreases by $.4 million (-0.08%) and, in an up 3.00% scenario, net interest income decreases $15.2 million (-2.93%) compared to our base case scenario. As a result of the already low interest rate environment, we did not include a 1.00% falling scenario.

In addition to reporting our interest rate sensitivity assuming an instantaneous shift in rates of 1.00%, 2.00% and 3.00% across the interest rate curve, we are now including four new modeling scenarios; short-end flattening, long-end flattening, short-end steepening, and long-end steepening. The shape of the yield curve can have a significant impact on our net interest income as the above table illustrates. A long-end flattening of the yield curve means that rates on the short-end of the curve remain stationary while long-end rates decline by 1.00%. Our modeling projects in this scenario that our net interest income would decline by $12.6 million (-2.43%) over a two year horizon. This is caused by longer term assets re-pricing at lower rates, while pricing on deposits, which are more closely tied to short-term rates, remains static. By contrast, in a long-end steepening scenario, short-term rates remain constant while rates on the long-end increase by 1.00%. In this scenario, our net interest income is projected to increase by $11.4 million (2.21%) over a two year horizon, since assets re-price at higher rates while rates on our deposits remain constant.

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From December 31, 2011 to December 31, 2012, there were significant changes to the size and mix of the balance sheet, some of which were due to the acquisition of Indiana Community Bank on September 15, 2012. During this time, investments increased by $354.8 million and net loans increased by $432.7 million, including a $329.2 million increase in residential real estate loans. Also during this time, deposits increased by $667.4 million, including an increase of $279.2 million in non-interest bearing checking, $258.6 million in NOW, and $299.0 million in savings. On November 15, 2012, two Federal Home Loan Bank advances totaling $50 million were terminated together with the accompanying pay-floating, receive-fixed interest rate swaps.

Old National also has longer term interest rate risk exposure, which may not be appropriately measured by Net Interest Income at Risk modeling. We use Economic Value of Equity (EVE) sensitivity analysis to evaluate the impact of long term cash flows on earnings and capital. EVE modeling involves discounting present values of all cash flows under different interest rate scenarios. The discounted present value of all cash flows represents our economic value of equity. The amount of base case economic value and its sensitivity to shifts in interest rates provide a measure of the longer term re-pricing and option risk in the balance sheet. EVE simulation results are shown below, relative to base case.

	Economic Value of Equity					
	12/31/2012			12/31/2011		
Immediate Change in the Level of Interest Rates	Economic Value of Equity (millions)	$ Change (millions)	% Change	Economic Value of Equity (millions)	$ Change (millions)	% Change
+3.00%	722	52	7.84%	709	20	2.86%
+2.00%	762	92	13.81%	727	38	5.49%
+1.00%	774	105	15.62%	751	62	8.93%
Yield Curve at 12/31	669		0.00%	689		0.00%
-1.00%	NA	NA	NA	NA	NA	NA

At December 31, 2012, Old National s Economic Value of Equity (EVE) scenarios indicated a positive change to EVE in the up 1.00%, 2.00%, and 3.00% scenarios. These changes in EVE modeling results were driven primarily by in the mix of the balance sheet noted above, specifically the large increase in demand and savings deposits. The value of these deposits (which are carried as liabilities) are assumed to decrease in value to a greater degree than our less rate sensitive assets on our balance sheet, under rising rate scenarios. Modeling results at December 31, 2012, indicate that we remain within our Company s acceptable risk tolerance levels.

Because the models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect our net interest income and value, we recognize that model outputs are not guarantees of actual results. For this reason, we model many different combinations of interest rates and balance sheet assumptions to understand its overall sensitivity to market interest rate changes.

We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. We also provide derivatives to our commercial customers in connection with managing interest rate risk. Our derivatives had an estimated fair value gain of $6.5 million at December 31, 2012, compared to an estimated fair value gain of $7.1 million at December 31, 2011. In addition, the notional amount of derivatives decreased by $99.9 million from December 31, 2011. Cash flow hedges of $100 million matured in February 2012, and $50 million of fair value hedges were terminated in November 2012. See Note 18 to the consolidated financial statements for further discussion of derivative financial instruments.

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Liquidity Risk

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

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

A time deposit maturity schedule for Old National Bank is shown in the following table for December 31, 2012.

Time Deposit Maturity Schedule December 31, 2012

Maturity Bucket	Amount (000s)	Rate
Q1 2013	197,287	0.83%
Q2 2013	162,500	0.73%
Q3 2013	266,290	2.44%
Q4 2013	132,220	1.34%
2014	225,010	1.38%
2015	133,587	2.13%
2016	114,889	3.70%
2017	23,299	1.16%
2018 and beyond	26,199	2.34%

Our ability to acquire funding at competitive prices is influenced by rating agencies views of our credit quality, liquidity, capital and earnings. All of the rating agencies place us in an investment grade that indicates a low risk of default. For both Old National and Old National Bank:

- Fitch Rating Service affirmed and withdrew its long-term and short-term ratings for both Old National Bancorp and Old National Bank on January 18, 2013, citing that ONB s ratings are no longer relevant to Fitch s rating coverage.

- Dominion Bond Rating Services has confirmed a stable outlook as of October 12, 2012.

- Moody s Investor Service downgraded Old National Bank s Long Term Rating from A1 to A2 and changed its outlook from Negative to Stable on November 1, 2011. Old National Bank s Short Term Rating was unchanged.

The senior debt ratings of Old National and Old National Bank at December 31, 2012, are shown in the following table.

SENIOR DEBT RATINGS

	Moody s Investor Service		Fitch, Inc.		Dominion Bond Rating Svc.	
	Long term	**Short term**	**Long term**	**Short term**	**Long term**	**Short term**
Old National Bancorp	N/A	N/A	BBB	F2	BBB (high)	R-2 (high)

Old National Bank	A2	P-1	BBB+	F2	A (low)	R-1 (low)

N/A = not applicable

Old National Bank maintains relationships in capital markets with brokers and dealers to issue certificates of deposit and short-term and medium-term bank notes as well. As of December 31, 2012, Old National Bancorp and its subsidiaries had the following availability of liquid funds and borrowings.

(dollars in thousands)	Parent Company	Subsidiaries
Available liquid funds:		
Cash and due from banks	$ 39,262	$ 179,014
Unencumbered government-issued debt securities		1,322,456
Unencumbered investment grade municipal securities		536,873
Unencumbered corporate securities		126,302
Unencumbered other securities		3,860
Availability of borrowings:		
Amount available from Federal Reserve discount window*		686,448
Amount available from Federal Home Loan Bank Indianapolis*		684,844
Amount available under other credit facilities		
Total available funds	$ 39,262	$ 3,539,797

* Based on collateral pledged

The Parent Company (Old National) has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. The Parent Company can obtain funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt and equity markets. At December 31, 2012, the Parent Company s other borrowings outstanding were $28.0 million, a net decrease of $1.0 million from December 31, 2011. This decrease was the result of the Parent Company calling $13.0 million of subordinated debt and $3.0 million of trust preferred securities on June 30, 2012, while adding $15.0 million of Indiana Community Bancorp s trust preferred securities on September 15, 2012.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. During the first quarter of 2009 Old National received a $40 million dividend from the Bank Subsidiary to repurchase the $100 million of non-voting preferred shares from the Treasury. In order to pay this special dividend, Old National Bank was required to seek approval from its regulatory authority. Such approval was also obtained for the payment of dividends during 2010 and 2011. Prior regulatory approval to pay dividends was not required in 2012 and is not currently required.

OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of our customers. Our banking affiliates have entered into various agreements to extend credit, including loan commitments of $1.253 billion and standby letters of credit of $63.4 million at December 31, 2012. At December 31, 2012, approximately $1.203 billion of the loan commitments had fixed rates and $50 million had floating rates, with the fixed interest rates ranging from 0% to 21%. At December 31, 2011, loan commitments were $1.220 billion and standby letters of credit were $73.3 million. The term of these off-balance sheet arrangements is typically one year or less.

During the second quarter of 2007, we entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of $8.3 million at December 31, 2012.

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CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES

The following table presents our significant fixed and determinable contractual obligations and significant commitments at December 31, 2012. Further discussion of each obligation or commitment is included in the referenced note to the consolidated financial statements.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES

		Payments Due In				
(dollars in thousands)	Note Reference	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without stated maturity		$ 5,997,672	$	$	$	$ 5,997,672
IRAs, consumer and brokered certificates of deposit	9	758,297	358,597	138,188	26,199	1,281,281
Short-term borrowings	10	589,815				589,815
Other borrowings	11	25,362	109,257	21,876	80,998	237,493
Fixed interest payments (a)		7,366	10,638	7,045	22,453	47,502
Operating leases	19	31,854	59,712	57,300	243,972	392,838
Other long-term liabilities (b)		13,900				13,900

(a) Our subordinated notes, certain trust preferred securities and certain Federal Home Loan Bank advances have fixed rates ranging from 1.24% to 8.34%. All of our other long-term debt is at Libor based variable rates at December 31, 2012. The projected variable interest assumes no increase in Libor rates from December 31, 2012.

(b) Old National assumed Indiana Bank and Trust s Pentegra Defined Benefit Plan for Financial Institutions. Old National has given notice to withdraw from the plan and has recorded an $13.4 million termination liability. Remainder is amount expected to be contributed to Old National pension plans in 2013. Amounts for 2014 and beyond are unknown at this time.

We rent certain premises and equipment under operating leases. See Note 19 to the consolidated financial statements for additional information on long-term lease arrangements.

We are party to various derivative contracts as a means to manage the balance sheet and our related exposure to changes in interest rates, to manage our residential real estate loan origination and sale activity, and to provide derivative contracts to our clients. Since the derivative liabilities recorded on the balance sheet change frequently and do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 18 to the consolidated financial statements.

In the normal course of business, various legal actions and proceedings are pending against us and our affiliates which are incidental to the business in which they are engaged. Further discussion of contingent liabilities is included in Note 19 to the consolidated financial statements.

In addition, liabilities recorded under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*) are not included in the table because the amount and timing of any cash payments cannot be reasonably estimated. Further discussion of income taxes and liabilities recorded under FASB ASC 740-10 is included in Note 12 to the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies are described in Note 1 to the consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2012. Certain accounting policies require management to use significant judgment and estimates, which can have a material impact on the carrying value of certain assets and liabilities. We consider these policies to be critical accounting policies. The judgment and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from estimates, which could have a material affect on our financial condition and results of operations.

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

Goodwill and Intangibles

Description. For acquisitions, we are required to record the assets acquired, including identified intangible assets, and the liabilities assumed at their fair value. These often involve estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates or other relevant factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective. Under FASB ASC 350 (SFAS No. 142 *Goodwill and Other Intangible Assets*), goodwill and indefinite-lived assets recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible asset.

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

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

Acquired Impaired Loans

Description. Loans acquired with evidence of credit deterioration since inception and for which it is probable that all contractual payments will not be received are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). These loans are recorded at fair value at the time of acquisition, with no carryover of the related allowance for loan losses. Fair value of acquired loans is determined using a discounted cash flow methodology based on assumptions about the amount and timing of principal and interest payments, principal prepayments and principal defaults and losses, and current market rates. In recording the acquisition date fair values of acquired impaired loans, management calculates a non-accretable difference (the credit component of the purchased loans) and an accretable difference (the yield component of the purchased loans).

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

Judgments and Uncertainties. These cash flow evaluations are inherently subjective as they require management to make estimates about expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change.

Effect if Actual Results Differ From Assumptions. Changes in these factors, as well as changing economic conditions will likely impact the carrying value of these acquired loans as well as the carrying value of any associated indemnification assets, as the FDIC will reimburse the Company for losses incurred on certain acquired loans, but the shared-loss agreements may not fully offset the financial effects of such a situation.

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Allowance for Loan Losses

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

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

Judgments and Uncertainties. We use migration analysis as a tool to determine the adequacy of the allowance for loan losses for performing commercial loans. Migration analysis is a statistical technique that attempts to estimate probable losses for existing pools of loans by matching actual losses incurred on loans back to their origination. Judgment is used to select and weight the historical periods which are most representative of the current environment.

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

We use historic loss ratios adjusted for expectations of future economic conditions to determine the appropriate level of allowance for consumer and residential real estate loans.

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

Management s analysis of probable losses in the portfolio at December 31, 2012, resulted in a range for allowance for loan losses of $12.0 million. The range pertains to general (FASB ASC 310, Receivables/SFAS 5) reserves for both retail and performing commercial loans. Specific (FASB ASC 310, Receivables/SFAS 114) reserves do not have a range of probable loss. Due to the risks and uncertainty associated with the economy, our projection of FAS 5 loss rates inherent in the portfolio, and our selection of representative historical periods, we establish a range of probable outcomes (a high-end estimate and a low-end estimate) and evaluate our position within this range. The potential effect to net income based on our position in the range relative to the high and low endpoints is a decrease of $0.1 million and an increase of $7.8 million, respectively, after taking into account the tax effects. These sensitivities are hypothetical and are not intended to represent actual results.

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Derivative Financial Instruments

Description. As part of our overall interest rate risk management, we use derivative instruments to reduce exposure to changes in interest rates and market prices for financial instruments. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items. To the extent hedging relationships are found to be effective, as determined by FASB ASC 815 (SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*), changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. Management believes hedge effectiveness is evaluated properly in preparation of the financial statements. All of the derivative financial instruments we use have an active market and indications of fair value can be readily obtained. We are not using the short-cut method of accounting for any fair value derivatives.

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

Effect if Actual Results Differ From Assumptions. To the extent hedging relationships are found to be effective, as determined by FASB ASC 815 (SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*), changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. However, if in the future the derivative financial instruments used by us no longer qualify for hedge accounting treatment, all changes in fair value of the derivative would flow through the consolidated statements of income in other noninterest income, resulting in greater volatility in our earnings.

Income Taxes

Description. We are subject to the income tax laws of the U.S., its states and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate. FASB ASC 740-10 (FIN 48) prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 12 to the Consolidated Financial Statements for a further description of our provision and related income tax assets and liabilities.

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

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

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Valuation of Securities

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

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

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

- The length of time and the extent to which the fair value has been less than amortized cost;
- The financial condition and near-term prospects of the issuer;
- The underlying fundamentals of the relevant market and the outlook for such market for the near future;
- Our intent to sell the debt security or whether it is more likely than not that we will be required to sell the debt security before its anticipated recovery; and
- When applicable for purchased beneficial interests, the estimated cash flows of the securities are assessed for adverse changes.

Quarterly, securities are evaluated for other-than-temporary-impairment in accordance with FASB ASC 320 (SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), and FASB ASC 325-10 (Emerging Issues Task Force No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets*) and FASB ASC 320-10 (FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). An impairment that is an other-than-temporary-impairment is a decline in the fair value of an investment below its amortized cost attributable to factors that indicate the decline will not be recovered over the anticipated holding period of the investment. Other-than-temporary-impairments result in reducing the security s carrying value by the amount of credit loss. The credit component of the other-than-temporary-impairment loss is realized through the statement of income and the remainder of the loss remains in other comprehensive income.

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

Effect if Actual Results Differ From Assumptions. Actual credit deterioration could be more or less severe than estimated. Upon subsequent review, if cash flows have significantly improved, the discount would be amortized into earnings over the remaining life of the debt security in a prospective manner based on the amount and timing of future cash flows. Additional credit deterioration resulting in an adverse change in cash flows would result in additional other-than-temporary impairment loss recorded in the income statement.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the Company s disclosure relating to it in this Management s Discussion and Analysis .

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk on page 50 of this Form 10-K is incorporated herein by reference in response to this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

MANAGEMENT S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the financial statements and related financial information appearing in this annual report on Form 10-K. The financial statements and notes have been prepared in conformity with accounting principles generally accepted in the United States of America and include some amounts which are estimates based upon currently available information and management s judgment of current conditions and circumstances. Financial information throughout this annual report on Form 10-K is consistent with that in the financial statements.

Management maintains a system of internal accounting controls which is believed to provide, in all material respects, reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized and recorded, and the financial records are reliable for preparing financial statements and maintaining accountability for assets. In addition, Old National has a Code of Business Conduct and Ethics, a Senior Financial and Executive Officer Code of Ethics and Corporate Governance Guidelines that outline high levels of ethical business standards. We also had a third party perform an independent validation of the Company s ethics program. Old National has also appointed a Chief Ethics Officer. All systems of internal accounting controls are based on management s judgment that the cost of controls should not exceed the benefits to be achieved and that no system can provide absolute assurance that control objectives are achieved. Management believes Old National s system provides the appropriate balance between cost of controls and the related benefits.

In order to monitor compliance with this system of controls, Old National maintains an extensive internal audit program. Internal audit reports are issued to appropriate officers and significant audit exceptions, if any, are reviewed with management and the Audit Committee of the Board of Directors.

The Board of Directors, through an Audit Committee comprised solely of independent outside directors, oversees management s discharge of its financial reporting responsibilities. The Audit Committee meets regularly with Old National s independent registered public accounting firm, Crowe Horwath LLP, and the managers of internal audit and loan review. During these meetings, the committee meets privately with the independent registered public accounting firm as well as with internal audit and loan review personnel to review accounting, auditing, loan and financial reporting matters. The appointment of the independent registered public accounting firm is made by the Audit Committee of the Board of Directors.

The consolidated financial statements in this annual report on Form 10-K have been audited by Crowe Horwath LLP, for the purpose of determining that the consolidated financial statements are presented fairly, in all material respects in conformity with accounting principles generally accepted in the United States of America. Crowe Horwath LLP s report on the financial statements follows.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Old National is responsible for establishing and maintaining adequate internal control over financial reporting. A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Old National s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on that assessment Old National has concluded that, as of December 31, 2012, the Company s internal control over financial reporting is effective. Old National s independent registered public accounting firm has audited the effectiveness of the Company s internal control over financial reporting as of December 31, 2012 as stated in their report which follows.

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Crowe Horwath LLP

Independent Member Crowe Horwath International

Board of Directors and Shareholders

Old National Bancorp

Evansville, Indiana

We have audited the accompanying consolidated balance sheets of Old National Bancorp as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2012. We also have audited Old National Bancorp s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Old National Bancorp s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Old National Bancorp as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Old National Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

Crowe Horwath LLP

Louisville, Kentucky

February 25, 2013

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OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	December 31, 2012	December 31, 2011
Assets		
Cash and due from banks	**$ 218,276**	$ 191,626
Money market and other interest-earning investments	**45,784**	31,246
Total cash and cash equivalents	**264,060**	222,872
Trading securities at fair value	**3,097**	2,816
Securities available-for-sale, at fair value	**2,500,784**	2,071,276
Securities held-to-maturity, at amortized cost (fair value $433,201 and $507,699 respectively)	**402,828**	484,590
Federal Home Loan Bank stock, at cost	**37,927**	30,835
Residential loans held for sale, at fair value	**12,591**	4,528
Loans, net of unearned income	**4,824,261**	4,140,843
Covered loans, net of discount	**372,333**	626,360
Total loans	**5,196,594**	4,767,203
Allowance for loan losses	**(49,047)**	(57,117)
Allowance for loan losses covered loans	**(5,716)**	(943)
Net loans	**5,141,831**	4,709,143
FDIC indemnification asset	**115,738**	167,714
Premises and equipment, net	**89,868**	71,870
Accrued interest receivable	**46,979**	44,801
Goodwill	**338,820**	253,177
Other intangible assets	**29,220**	33,624
Company-owned life insurance	**270,629**	248,693
Other real estate owned and repossessed personal property	**11,179**	7,119
Other real estate owned covered	**26,137**	30,443
Assets held for sale	**15,047**	16,861
Other assets	**236,888**	209,321
Total assets	**$ 9,543,623**	$ 8,609,683
Liabilities		
Deposits:		
Noninterest-bearing demand	**$ 2,007,770**	$ 1,728,546
Interest-bearing:		
NOW	**1,827,665**	1,569,084
Savings	**1,869,377**	1,570,422
Money market	**292,860**	295,847
Time	**1,281,281**	1,447,664
Total deposits	**7,278,953**	6,611,563
Short-term borrowings	**589,815**	424,849
Other borrowings	**237,493**	290,774
Accrued expenses and other liabilities	**242,797**	248,941
Total liabilities	**8,349,058**	7,576,127

Commitments and contingencies (Note 19)		
Shareholders Equity		
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding		
Common stock, $1.00 per share stated value, 150,000 shares authorized, 101,179 and 94,654 shares issued and outstanding, respectively	**101,179**	94,654
Capital surplus	**916,918**	834,033
Retained earnings	**146,667**	89,865
Accumulated other comprehensive income (loss), net of tax	**29,801**	15,004
Total shareholders equity	**1,194,565**	1,033,556
Total liabilities and shareholders equity	**$ 9,543,623**	$ 8,609,683

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME

(dollars and shares in thousands, except per share data)	Years Ended December 31, 2012	2011	2010
Interest Income			
Loans including fees:			
Taxable	**$ 257,176**	$ 228,480	$ 175,607
Nontaxable	**8,858**	9,419	9,631
Investment securities, available-for-sale:			
Taxable	**44,059**	51,682	71,057
Nontaxable	**15,722**	13,571	16,294
Investment securities, held-to-maturity, taxable	**18,830**	23,079	23,828
Money market and other interest-earning investments	**54**	362	431
Total interest income	**344,699**	326,593	296,848
Interest Expense			
Deposits	**27,042**	35,911	48,608
Short-term borrowings	**539**	550	662
Other borrowings	**8,361**	17,259	29,162
Total interest expense	**35,942**	53,720	78,432
Net interest income	**308,757**	272,873	218,416
Provision for loan losses	**5,030**	7,473	30,781
Net interest income after provision for loan losses	**303,727**	265,400	187,635
Noninterest Income			
Wealth management fees	**21,549**	20,460	16,120
Service charges on deposit accounts	**51,483**	51,862	50,018
ATM fees	**24,006**	25,199	22,967
Mortgage banking revenue	**3,742**	3,250	2,230
Insurance premiums and commissions	**37,103**	36,957	36,463
Investment product fees	**12,714**	11,068	9,192
Company-owned life insurance	**6,452**	5,322	4,052
Net securities gains	**15,052**	8,691	17,124
Total other-than-temporary impairment losses	**(1,414)**	(3,252)	(5,060)
Loss recognized in other comprehensive income		1,843	1,133
Impairment losses recognized in earnings	**(1,414)**	(1,409)	(3,927)
Gain on derivatives	**820**	974	1,492
Gain on sale leaseback transactions	**6,423**	7,864	6,452
Change in FDIC indemnification asset	**(3,375)**	426	
Other income	**15,261**	12,219	7,967
Total noninterest income	**189,816**	182,883	170,150
Noninterest Expense			
Salaries and employee benefits	**193,874**	189,539	170,601
Occupancy	**50,929**	51,054	46,410
Equipment	**11,744**	11,720	10,641

Marketing	**7,451**	5,990	5,720
Data processing	**22,014**	22,971	21,409
Communication	**10,939**	10,406	9,803
Professional fees	**12,030**	14,959	8,253
Loan expense	**7,037**	4,734	3,936
Supplies	**2,719**	3,762	2,935
Loss on extinguishment of debt	**1,949**	789	6,107
FDIC assessment	**5,991**	7,523	8,370
Other real estate owned expense	**17,136**	1,992	2,613
Amortization of intangibles	**7,941**	8,829	6,130
Other expense	**14,004**	14,253	11,377
Total noninterest expense	**365,758**	348,521	314,305
Income before income taxes	**127,785**	99,762	43,480
Income tax expense	**36,110**	27,302	5,266
Net income	**$ 91,675**	$ 72,460	$ 38,214
Net income per common share:			
Basic earnings per share	**$ 0.95**	$ 0.76	$ 0.44
Diluted earnings per share	**0.95**	0.76	0.44
Weighted average number of common shares outstanding			
Basic	**96,440**	94,467	86,785
Diluted	**96,833**	94,772	86,928
Dividends per common share	**$ 0.36**	$ 0.28	$ 0.28

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	Years Ended December 31, 2012	2011	2010
Net income	**$ 91,675**	$ 72,460	$ 38,214
Other comprehensive income			
Change in securities available-for-sale:			
Unrealized holding gains for the period	**37,178**	43,221	43,078
Reclassification for securities transferred to held-to-maturity			(9,371)
Reclassification adjustment for securities gains realized in income	**(15,052)**	(8,691)	(17,124)
Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income		(1,843)	(1,133)
Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income	**1,414**	1,409	3,927
Income tax effect	**(9,099)**	(13,273)	(7,876)
Unrealized gains on available-for-sale securities	**14,441**	20,823	11,501
Change in securities held-to-maturity:			
Adjustment for securities transferred to available-for-sale	**(1,588)**		
Adjustment for securities transferred from available-for-sale			9,371
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	**(870)**	(1,535)	(1,284)
Income tax effect	**982**	613	(3,232)
Changes from securities held-to-maturity	**(1,476)**	(922)	4,855
Cash flow hedges:			
Net unrealized derivative gains (losses) on cash flow hedges	**(240)**	(1,387)	807
Reclassification adjustment on cash flow hedges		216	288
Income tax effect	**96**	470	(436)
Changes from cash flow hedges	**(144)**	(701)	659
Defined benefit pension plans:			
Net loss, settlement cost and amortization of net (gain) loss recognized in income	**3,294**	(4,878)	3,469
Income tax effect	**(1,318)**	1,951	(1,387)
Changes from defined benefit pension plans	**1,976**	(2,927)	2,082
Other comprehensive income, net of tax	**14,797**	16,273	19,097
Comprehensive income	**$ 106,472**	$ 88,733	$ 57,311

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(dollars and shares in thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance, January 1, 2010	$ 87,182	$ 746,775	$ 30,235	$ (20,366)	$ 843,826
Comprehensive income					
Net income			38,214		38,214
Other comprehensive income					
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				11,501	11,501
Transferred securitites, net of tax				4,855	4,855
Reclassification adjustment on cash flow hedges, net of tax				659	659
Net loss, settlement cost and amort. of net (gain) loss on defined benefit pension plans, net of tax				2,082	2,082
Dividends common stock			(24,361)		(24,361)
Common stock issued	19	178			197
Common stock repurchased	(41)	(664)			(705)
Stock based compensation expense		2,369			2,369
Stock activity under incentive comp plans	23	215	(70)		168
Balance, December 31, 2010	87,183	748,873	44,018	(1,269)	878,805
Comprehensive income					
Net income			72,460		72,460
Other comprehensive income					
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				20,823	20,823
Transferred securitites, net of tax				(922)	(922)
Reclassification adjustment on cash flow hedges, net of tax				(701)	(701)
Net loss, settlement cost and amort. of net (gain) loss on defined benefit pension plans, net of tax				(2,927)	(2,927)
Acquisition Monroe Bancorp	7,575	82,495			90,070
Dividends common stock			(26,513)		(26,513)
Common stock issued	22	200			222
Common stock repurchased	(145)	(1,381)			(1,526)
Stock based compensation expense		3,436			3,436
Stock activity under incentive comp plans	19	410	(100)		329
Balance, December 31, 2011	**94,654**	**834,033**	**89,865**	**15,004**	**1,033,556**
Comprehensive income					
Net income			**91,675**		**91,675**
Other comprehensive income					
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				**14,441**	**14,441**
Transferred securities, net of tax				**(1,476)**	**(1,476)**
Reclassification adjustment on cash flow hedges, net of tax				**(144)**	**(144)**
Net loss, settlement cost and amort. of net (gain) loss on defined benefit pension plans, net of tax				**1,976**	**1,976**
Acquisition Indiana Community Bancorp	**6,626**	**81,871**			**88,497**
Dividends common stock			**(34,657)**		**(34,657)**
Common stock issued	**21**	**233**			**254**

Common stock repurchased	**(326)**	**(3,664)**			**(3,990)**
Stock based compensation expense		**3,317**			**3,317**
Stock activity under incentive comp plans	**204**	**1,128**	**(216)**		**1,116**
Balance, December 31, 2012	**$ 101,179**	**$ 916,918**	**$ 146,667**	**$ 29,801**	**$ 1,194,565**

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

	Years Ended December 31,		
(dollars in thousands)	2012	2011	2010
Cash Flows From Operating Activities			
Net income	**$ 91,675**	$ 72,460	$ 38,214
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**11,306**	9,674	8,990
Amortization and impairment of other intangible assets	**7,941**	8,829	6,129
Net premium amortization on investment securities	**13,816**	12,135	7,590
Change in FDIC indemnification asset	**3,375**	426	
Stock compensation expense	**3,317**	3,436	2,369
Provision for loan losses	**5,030**	7,473	30,781
Net securities gains	**(15,052)**	(8,691)	(17,124)
Impairment on available-for-sale securities	**1,414**	1,409	3,927
Gain on sale leasebacks	**(6,423)**	(7,864)	(6,452)
Gain on derivatives	**(820)**	(974)	(1,492)
Net gains on sales and write-downs of loans and other assets	**(1,547)**	(2,677)	(1,410)
Loss on retirement of debt	**1,949**	789	6,107
Increase in cash surrender value of company-owned life insurance	**(6,103)**	(5,295)	(1,540)
Residential real estate loans originated for sale	**(86,665)**	(84,303)	(57,523)
Proceeds from sale of residential real estate loans	**83,912**	93,757	72,773
(Increase) decrease in interest receivable	**(13)**	4,725	6,369
Decrease in other real estate owned	**6,356**	11,156	2,215
Decrease in other assets	**15,452**	14,345	14,582
Increase (decrease) in accrued expenses and other liabilities	**(14,630)**	12,276	(17,995)
Total adjustments	**22,615**	70,626	58,296
Net cash flows provided by operating activities	**114,290**	143,086	96,510
Cash Flows From Investing Activities			
Cash and cash equivalents of acquired banks	**78,540**	398,558	
Payments related to branch divestiture		(106,392)	
Purchase of trust assets		(1,301)	
Net cash paid in FDIC-assisted transaction		(151,264)	
Purchases of investment securities available-for-sale	**(1,031,124)**	(550,934)	(1,106,040)
Purchases of investment securities held-to-maturity			(255,828)
Purchase of loans			(7,660)
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**591,735**	521,553	1,046,431
Proceeds from sale of trading securities		1,078	
Proceeds from sales of investment securities available-for-sale	**227,566**	545,995	481,471
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**31,507**	154,675	150,837
Proceeds from redemption of FHLB stock		18,622	4,153
Proceeds from sale of loans and leases	**2,355**	5,364	3,627
Reimbursement under FDIC loss share agreements	**48,223**	660	
Net principal collected from (loans made to) loan customers	**54,720**	180,358	123,308
Proceeds from sale of premises and equipment and other assets	**3,498**	487	3,729
Purchases of premises and equipment and other assets	**(18,712)**	(11,486)	(7,460)

Net cash flows provided by (used in) investing activities	**(11,692)**	1,005,973	436,568
Cash Flows From Financing Activities			
Net increase (decrease) in deposits and short-term borrowings:			
Deposits	**(117,663)**	(841,885)	(440,563)
Short-term borrowings	**164,965**	56,434	(32,912)
Payments for maturities on other borrowings	**(3,087)**	(153,383)	(75,821)
Proceeds from issuance of other borrowings			75,000
Payments related to retirement of debt	**(67,949)**	(211,228)	(279,649)
Cash dividends paid on common stock	**(34,657)**	(26,513)	(24,361)
Common stock repurchased	**(3,990)**	(1,526)	(705)
Proceeds from exercise of stock options, including tax benefit	**717**	140	12
Common stock issued	**254**	222	197
Net cash flows used in financing activities	**(61,410)**	(1,177,739)	(778,802)
Net increase (decrease) in cash and cash equivalents	**41,188**	(28,680)	(245,724)
Cash and cash equivalents at beginning of period	**222,872**	251,552	497,276
Cash and cash equivalents at end of period	**$ 264,060**	$ 222,872	$ 251,552

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

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OLD NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATURE OF OPERATIONS

Old National Bancorp, a financial holding company headquartered in Evansville, Indiana, operates primarily in Indiana, Illinois, and Kentucky. Its principal subsidiaries include Old National Bank, ONB Insurance Group, Inc., and American National Trust & Investment Management Corp. Through its bank and non-bank affiliates, Old National Bancorp provides to its clients an array of financial services including loan, deposit, wealth management, investment consulting, investment and insurance products.

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying 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 of purchased loans, 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 December 31, 2012 and 2011, and the results of its operations and cash flows for the years ended December 31, 2012, 2011 and 2010.

All significant intercompany transactions and balances have been eliminated. A summary of the more significant accounting and reporting policies used in preparing the statements is presented below.

TRADING SECURITIES

Trading securities consist of investments in various mutual funds held in grantor trusts formed by Monroe Bancorp in connection with a deferred compensation plan. These mutual funds are recorded as trading securities at fair value. Gains and losses are included in net securities gains.

INVESTMENT SECURITIES

Old National classifies investment securities as available-for-sale or held-to-maturity on the date of purchase. Securities classified as available-for-sale are recorded at fair value with the unrealized gains and losses, net of tax effect, recorded in other comprehensive income. Realized gains and losses affect income and the prior fair value adjustments are reclassified within shareholders equity. Securities classified as held-to-maturity, which management has the intent and ability to hold to maturity, are reported at amortized cost. Premiums and discounts are amortized on the level-yield method. Anticipated prepayments are considered when amortizing premiums and discounts on mortgage backed securities. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

Other-Than-Temporary- Impairment Management evaluates securities for other-than-temporary-impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (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 including an evaluation of credit ratings, (3) whether the market decline was affected by macroeconomic conditions, (4) the intent of the Company to sell a security, and (5) whether it is more likely than not the Company will have to sell the security before recovery of its cost basis. If the Company intends to sell an impaired security, the Company records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost. If a security is determined to be other-than-temporarily-impaired, but the Company does not intend to sell the security and it is not more likely than not that it will be required to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income. See Note 3 to the consolidated financial statements for a detailed description of the quarterly evaluation process.

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FEDERAL HOME LOAN BANK (FHLB) STOCK

Old National is a member of the FHLB 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, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

RESIDENTIAL LOANS HELD FOR SALE

Residential loans that Old National has committed to sell are classified as loans held for sale and are recorded in accordance with FASB ASC 825-10 (SFAS No. 159) at fair value, determined individually, as of the balance sheet date. The loans fair value includes the servicing value of the loans as well as any accrued interest.

LOANS

Loans that Old National intends to hold for investment purposes are classified as portfolio loans. Portfolio loans 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. For all loan classes, 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.

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.

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, assessments of the impact of current economic conditions on the portfolio, and historical loss experience. 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.

For all loan classes, 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.

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Acquired loans accounted for under FASB ASC Topic 310-30 accrue interest, even though they may be contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period covered loan loss provision or prospective yield adjustments.

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 all portfolio segments, the general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most relevant three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Further information regarding Old National s policies and methodology used to estimate the allowance for loan losses is presented in Note 5.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Land is stated at cost. Depreciation is charged to operating expense over the useful lives of the assets, principally on the straight-line method. Useful lives for premises and equipment are as follows: buildings and building improvements 15 to 39 years; and furniture and equipment 3 to 10 years. Leasehold improvements are depreciated over the lesser of their useful lives or the term of the lease. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Interest costs on construction of qualifying assets are capitalized.

Premises and equipment are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are adjusted to fair value. Such impairments are included in other expense.

GOODWILL AND OTHER INTANGIBLE ASSETS

The excess of the cost of acquired entities over the fair value of identifiable assets acquired less liabilities assumed is recorded as goodwill. In accordance with FASB ASC 350 (SFAS No. 142, *Goodwill and Other Intangible Assets*), amortization on goodwill and indefinite-lived assets is not recorded. However, the recoverability of goodwill and other intangible assets are annually tested for impairment. Other intangible assets, including core deposits and customer business relationships, are amortized primarily on an accelerated cash flow basis over their estimated useful lives, generally over a period of 7 to 25 years.

COMPANY OWNED LIFE INSURANCE

Old National has purchased life insurance policies on certain key executives. The Company records company owned life insurance at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The amount of company owned life insurance at December 31, 2012 and 2011 was $270.6 million and $248.7 million, respectively.

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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. All derivative instruments are recognized on the balance sheet at their fair value in accordance with FASB ASC 815 (SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*), as amended. At the inception of the derivative contract, the Company will designate the derivative as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or (3) an instrument with no hedging designation (stand-alone derivative). For derivatives that are designated and qualify as a fair value hedge, the change in value of the derivative, as well as the offsetting change in value of the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. For derivatives that are designated and qualify as a cash flow hedge, the effective portion of the change in value on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For all hedging relationships, changes in fair value of derivatives that are not effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings during the period of the change. Similarly, the changes in the fair value of derivatives that do not qualify for hedge accounting under FASB ASC 815 (SFAS No. 133) are also reported currently in earnings, in noninterest income.

The accrued net settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, consistent with the item being hedged.

Old National formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair-value or cash-flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivative instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The Company discontinues hedge accounting prospectively when it is determined that (1) the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item; (2) the derivative expires, is sold, or terminated; (3) the derivative instrument is de-designated as a hedge because the forecasted transaction is no longer probable of occurring; (4) a hedged firm commitment no longer meets the definition of a firm commitment; (5) or management otherwise determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued, the future changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transaction is still expected to occur, changes in value that were accumulated in other comprehensive income are amortized or accreted into earnings over the same periods which the hedged transactions will affect earnings.

Old National enters into various stand-alone mortgage-banking derivatives in order to hedge the risk associated with the fluctuation of interest rates. Changes in fair value are recorded as mortgage banking revenue. Old National also enters into various stand-alone derivative contracts to provide derivative products to customers which are carried at fair value with changes in fair value recorded as other noninterest income.

Old National is exposed to losses if a counterparty fails to make its payments under a contract in which Old National is in the net receiving position. Old National anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. In addition, Old National obtains collateral above certain thresholds of the fair value of its hedges for each counterparty based upon their credit standing. All of the contracts to which Old National is a party settle monthly, quarterly or semiannually. Further, Old National has netting agreements with the dealers with which it does business.

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CREDIT-RELATED FINANCIAL INSTRUMENTS

In the ordinary course of business, Old National s affiliate bank has entered into credit-related financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. The notional amount of these commitments is not reflected in the consolidated financial statements until they are funded.

FORECLOSED ASSETS

Other assets include real estate properties acquired as a result of foreclosure and repossessed personal property and are initially recorded at the fair value of the property less estimated cost to sell. Any excess recorded investment over the fair value of the property received is charged to the allowance for loan losses. Any subsequent write-downs are charged to expense, as are the costs of operating the properties. The amount of foreclosed assets at December 31, 2012 and 2011 was $37.3 million and $37.6 million, respectively. Included in foreclosed assets at December 31, 2012 and 2011 is approximately $26.1 million and $30.4 million, respectively, of covered other real estate owned from the Integra Bank acquisition (see discussion below regarding covered assets).

SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company purchases certain securities, generally U.S. Government-sponsored entity and agency securities, under agreements to resell. The amounts advanced under these agreements represent short-term secured loans and are reflected as assets in the accompanying consolidated balance sheets. The Company also sells certain securities under agreements to repurchase. These agreements are treated as collateralized financing transactions. These secured borrowings are reflected as liabilities in the accompanying consolidated balance sheets and are recorded at the amount of cash received in connection with the transaction. Short-term securities sold under agreements to repurchase generally mature within one to four days from the transaction date. Securities, generally U.S. government and federal agency securities, pledged as collateral under these financing arrangements can be repledged by the secured party. Additional collateral may be required based on the fair value of the underlying securities.

COVERED ASSETS, LOSS SHARE AGREEMENT AND INDEMNIFICATION ASSET

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC assisted transaction. As part of the purchase and assumption agreement, the Company and the FDIC entered into loss sharing agreements (each, a loss sharing agreement and collectively, the loss sharing agreements), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), other real estate owned (OREO) and up to 90 days of certain accrued interest on loans. The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the loss sharing agreements, the FDIC will reimburse Old National for 80% of expenses and valuation write-downs related to covered assets up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0%, and 80% of losses in excess of $467.2 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC has reimbursed the Bank under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

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

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Because the FDIC will reimburse the Company for losses incurred on certain acquired loans, an indemnification asset (FDIC loss share receivable) is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The loss share agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. The carrying value of the indemnification asset at December 31, 2012 and 2011 was $115.7 million and $167.7 million, respectively. In October 2012, the FASB issued ASU No. 2012-06, which provides guidance for when there is a change in the cash flows expected to be collected on an indemnification asset. This update is consistent with the Company s current accounting treatment of changes in expected cash flows and the indemnification asset.

The loss share agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by FASB ASC 310, subsequent changes to the basis of the loss share agreements also follow that model. Deterioration in our expectation of credit quality of the loans or other real estate owned would immediately increase the basis of the loss share agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the loss share agreements, with the decrease being amortized into income over the same period or the life of the loss share agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Initial fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the loss share agreements.

ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes within each classification of accumulated other comprehensive income (AOCI) for the years ended December 31, 2012 and 2011:

	AOCI at December 31, 2010	Other Comprehensive Income	AOCI at December 31, 2011	Other Comprehensive Income	AOCI at December 31, 2012
Unrealized gains (losses) on available-for-sale securities	$ 31,962	$ 21,949	$ 53,911	$ (11,094)	$ 42,817
Unrealized losses on securities for which other-than-temporary-impairment has been recognized	(28,173)	(1,126)	(29,299)	25,535	(3,764)
Unrealized gains (losses) on held-to-maturity securities	5,667	(922)	4,745	(1,476)	3,269
Unrecognized gain (loss) on cash flow hedges	846	(701)	145	(144)	1
Defined benefit pension plans	(11,571)	(2,927)	(14,498)	1,976	(12,522)
Accumulated other comprehensive income (loss)	$ (1,269)	$ 16,273	$ 15,004	$ 14,797	$ 29,801

NET INCOME PER SHARE

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during each year. Diluted net income per share is computed as above and assumes the conversion of outstanding stock options and restricted stock.

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The following table reconciles basic and diluted net income per share for the years ended December 31.

EARNINGS PER SHARE RECONCILIATION

(dollars and shares in thousands, except per share data)	2012	2011	2010
Basic Earnings Per Share			
Net income	**$ 91,675**	$ 72,460	$ 38,214
Weighted average common shares outstanding	**96,440**	94,467	86,785
Basic Earnings Per Share	**$ 0.95**	$ 0.76	$ 0.44
Diluted Earnings Per Share			
Net income	**$ 91,675**	$ 72,460	$ 38,214
Weighted average common shares outstanding	**96,440**	94,467	86,785
Effect of dilutive securities:			
Restricted stock (1)	**379**	285	132
Stock options (2)	**14**	20	11
Weighted average shares outstanding	**96,833**	94,772	86,928
Diluted Earnings Per Share	**$ 0.95**	$ 0.76	$ 0.44

(1) 6, 6 and 56 shares of restricted stock and restricted stock units were not included in the computation of net income per diluted share at December 31, 2012, 2011 and 2010, respectively, because the effect would be antidilutive.

(2) Options to purchase 3,284 shares, 4,606 shares and 5,995 shares outstanding at December 31, 2012, 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 maket price of the common shares and, therefore, the effect would be antidilutive.

STOCK-BASED COMPENSATION

Compensation cost is recognized for stock options and restricted stock awards and units issued to employees based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company s common stock at the date of grant is used for restricted stock awards. A third party provider is used to value certain restricted stock units where the performance measure is based on total shareholder return. Compensation expense is recognized over the requisite service period.

INCOME TAXES

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company recognizes a tax position as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

LOSS CONTINGENCIES

Loss contingencies, including claims and legal actions arising in the normal course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. See Note 19 to the consolidated financial statements for further disclosure.

STATEMENT OF CASH FLOWS DATA

For the purpose of presentation in the accompanying consolidated statement of cash flows, cash and cash equivalents are defined as cash, due from banks, federal funds sold and resell agreements, and money market investments, which have maturities less than 90 days. Cash paid during 2012, 2011 and 2010 for interest was $38.4 million, $59.5 million and $83.3 million, respectively. Cash paid for income tax, net of refunds, was a payment of $24.2 million during 2012, a payment of $4.6 million during 2011 and a net refund of $2.0 million during 2010, respectively. Other noncash transactions include loans transferred to loans held for sale of $1.7 million in 2012, $5.4 million in 2011 and $3.2 million in 2010, leases transferred from held for sale of $51.4 million in 2010, transfers of securities from the held-to-maturity portfolio to the available-for-sale portfolio of $46.1 million in 2012 and transfers of securities from the available-for-sale portfolio to the held-to-maturity portfolio of $143.8 million in 2010. Approximately 6.6 million shares of common stock, valued at approximately $88.5 million, were issued in the acquisition of Indiana Community Bancorp on September 15, 2012. Approximately 7.6 million shares of common stock, valued at approximately $90.1 million, were issued in the acquisition of Monroe Bancorp on January 1, 2011.

IMPACT OF ACCOUNTING CHANGES

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

FASB ASC 220 In June 2011, the FASB issued an update (ASU No. 2011-05, Presentation of Comprehensive Income) impacting FASB ASC 220, Comprehensive Income. The amendments in this update eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. An entity will have the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. An entity will be required to present on the face of financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income. This update and ASC No. 2011-12, which defers a portion of this guidance, became effective for the Company for interim and annual reporting periods beginning after December 15, 2011 and did not have a material impact on the consolidated financial statements.

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

FASB ASC 360 In December 2011, the FASB issued an update (ASU No. 2011-10, Derecognition of in Substance Real Estate a Scope Clarification) impacting FASB ASC 360-20, Property, Plant, and Equipment Real Estate Sales. Under the amendments in this update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse debt. This update became effective for the Company for interim and annual reporting periods beginning on or after June 15, 2012 and did not have a material impact on the consolidated financial statements.

FASB ASC 805 In October 2012, the FASB issued an update (ASU No. 2012-06, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution) impacting FASB ASC 805, Business Combinations. This update specifies that when an entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs, the entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). This update becomes effective for interim and annual periods beginning on or after December 15, 2012, and is consistent with the Company s current accounting treatment of changes in expected cash flows and the indemnification asset and will not have a material impact on the consolidated financial statements.

FASB ASC 220 In February 2013, the FASB issued an update (ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income) impacting FASB ASC 220, Comprehensive Income. This update requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income. An entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about these amounts. This update becomes effective for interim and annual periods beginning after December 15, 2012. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2012 presentation. Such reclassifications had no effect on net income or shareholders equity and were insignificant amounts.

NOTE 2 ACQUISITION AND DIVESTITURE ACTIVITY

Indiana Community Bancorp

On September 15, 2012, Old National acquired 100 % of Indiana Community Bancorp (IBT) in an all stock transaction. IBT was headquartered in Columbus, Indiana and had 17 full-service banking centers serving the South Central Indiana area. The acquisition increases Old National s position as the third largest branch network in Indiana and allows Old National to enter into the vibrant, growing region of south central Indiana in a rapid and cost effective manner. We also believe there are opportunities to enhance income and improve efficiencies. Pursuant to the merger agreement, the shareholders of IBT received approximately 6.6 million shares of Old National Bancorp stock valued at approximately $88.5 million.

Under the acquisition method of accounting, the total estimated purchase price is allocated to IBT 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 assumptions that are subject to change, the purchase price for the IBT acquisition is allocated as follows (in thousands):

Cash and cash equivalents	$ 78,540
Investment securities available for sale	147,710
Federal Home Loan Bank stock, at cost	7,092
Loans	497,434
Premises and equipment	13,465
Accrued interest receivable	2,165
Other real estate owned	6,111
Company-owned life insurance	15,833
Other assets	49,298
Deposits	(784,589)
Other borrowings	(15,464)
Accrued expenses and other liabilities	(17,765)
Net tangible assets acquired	(170)
Definite-lived intangible assets acquired	3,024
Goodwill	85,643
Purchase price	$ 88,497

Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively. During the fourth quarter of 2012, adjustments were made in the purchase price allocation that affected the amounts allocated to loans, other real estate owned, other assets, accrued expenses and other liabilities and goodwill.

Of the total purchase price, $0.2 million has been allocated to net tangible liabilities acquired and $3.0 million has been allocated to definite-lived intangible assets acquired. The remaining purchase price has been allocated to goodwill. The goodwill will not be deductible for tax purposes and is included in the Community Banking and Other segments, as described in Note 23 of these consolidated financial statement footnotes.

The components of the estimated fair value of the acquired identifiable intangible assets are in the table below. These intangible assets will be amortized on an accelerated basis over their estimated lives and are included in the Community Banking and Other segments, as described in Note 23 of these consolidated financial statement footnotes.

	Estimated Fair Value (in millions)	Estimated Useful Lives (Years)
Core deposit intangible	$ 1.3	7
Trust customer relationship intangible	$ 1.7	12

Integra Bank N.A.

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

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

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

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the July 29, 2011 acquisition date. The application of the acquisition method of accounting resulted in the recognition of $16.9 million of goodwill and $4.3 million of core deposit intangible, after tax. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired and is influenced significantly by the FDIC-assisted transaction process. Goodwill of $29.0 million is deductible for income tax purposes.

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

Under the acquisition method of accounting, the total estimated purchase price is allocated to Integra s net tangible and intangible assets based on their current estimated fair values on the date of acquisition. The purchase price of $170.8 million was allocated as follows (in thousands):

Assets Acquired	
Cash and cash equivalents	$ 314,954
Investment securities available for sale	453,700
Federal Home Loan Bank stock, at cost	15,226
Residential loans held for sale	1,690
Loans covered	727,330
Loans non-covered	56,828
Premises and equipment	19,713
Other real estate owned	34,055
Accrued interest receivable	4,751
Goodwill	16,864
Other intangible assets	4,291
FDIC indemnification asset	167,949
Other assets	9,999
Assets acquired	$ 1,827,350
Liabilities Assumed	
Deposits	$ 1,443,209
Short-term borrowings	7,654
Other borrowings	192,895
FDIC settlement payable	170,759
Other liabilities	12,833
Liabilities assumed	$ 1,827,350

Divestitures

On August 16, 2012, Old National announced plans to sell the deposits of nine banking centers located in southern Illinois and western Kentucky. As such, these deposits are considered held for sale as of December 31, 2012. The deposits totaled approximately $150.0 million at December 31, 2012. Old National also announced plans to consolidate 19 banking centers into existing branch locations. The consolidations occurred during the fourth quarter of 2012 and the pending sales will close during the first quarter of 2013. The Company expects to record a gain of approximately $1.4 million on the sales.

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On December 2, 2011, Old National sold $106.9 million of deposits from four of the former Integra Bank branches located in the Chicago area to First Midwest Bank. Old National recorded a net gain of $0.5 million after recording the $0.4 million deposit premium plus $0.8 million related to the time deposit mark less $0.7 million of accelerated amortization associated with the core deposit intangible. Old National retained all of the loans.

Trust Business of Integra Bank

On June 1, 2011, Old National Bancorp s wholly owned trust subsidiary, American National Trust and Investment Management Company d/b/a Old National Trust Company (ONTC), acquired the trust business of Integra Bank, N.A. in a transaction unrelated to the previously noted FDIC transaction. As of the closing, the trust business had approximately $328 million in assets under management. This transaction brought the total assets under management by Old National s Wealth Management division to approximately $4.4 billion. Old National paid Integra $1.3 million in an all cash transaction and recorded acquisition-related costs of $126 thousand. Old National recorded $1.3 million of customer relationship intangible assets which will be amortized on an accelerated basis over 12 years and is included in the Other segment, as described in Note 23 of the consolidated financial statement footnotes.

Monroe Bancorp

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

Under the acquisition method of accounting, the total estimated purchase price is allocated to Monroe s net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. The purchase price for the Monroe acquisition is allocated as follows (in thousands):

Cash and cash equivalents	$ 83,604
Trading securities	3,877
Investment securities available for sale	140,422
Investment securities held to maturity	6,972
Federal Home Loan Bank stock, at cost	2,323
Loans held for sale	6,328
Loans	447,038
Premises and equipment	19,738
Accrued interest receivable	1,804
Company-owned life insurance	17,206
Other assets	41,538
Deposits	(653,813)
Short-term borrowings	(62,529)
Other borrowings	(37,352)
Accrued expenses and other liabilities	(6,000)
Net tangible assets acquired	11,156
Definite-lived intangible assets acquired	10,485
Goodwill	68,429
Purchase price	$ 90,070

Of the total estimated purchase price, $11.2 million has been allocated to net tangible assets acquired and $10.5 million has been allocated to definite-lived intangible assets acquired. The remaining purchase price has been allocated to goodwill. The goodwill will not be deductible for tax purposes and is included in the Community Banking and Other segments, as described in Note 23 of these consolidated financial statement footnotes.

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The components of the estimated fair value of the acquired identifiable intangible assets are in the table below. These intangible assets will be amortized on an accelerated basis over their estimated lives and are included in the Community Banking and Other segments, as described in Note 23 of these consolidated financial statement footnotes.

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

Subsequent Event

On January 9, 2013 Old National announced that it had entered into a purchase and assumption agreement to acquire 24 bank branches of Bank of America. Four of the branches are located in northern Indiana and 20 branches are located in southwest Michigan. Deposit and loan balances to be included in the transaction were $778.8 million and $7.7 million, respectively, as of August 2012. The Company will pay a deposit premium of 2.94%. The acquisition will double Old National s presence in the South Bend/Elkhart area and provide a logical market extension into southwest Michigan. The transaction is expected to close in the third quarter of 2013 subject to approval by federal and state regulatory authorities.

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NOTE 3 INVESTMENT SECURITIES

The following tables summarize the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at December 31 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2012				
Available-for-Sale				
U.S. Treasury	**$ 11,437**	**$ 404**	**$**	**$ 11,841**
U.S. Government-sponsored entities and agencies	**515,469**	**2,794**	**(938)**	**517,325**
Mortgage-backed securities Agency	**1,130,991**	**33,244**	**(447)**	**1,163,788**
Mortgage-backed securities Non-agency	**29,359**	**1,175**	**(338)**	**30,196**
States and political subdivisions	**542,559**	**35,805**	**(1,040)**	**577,324**
Pooled trust prefered securities	**24,884**		**(15,525)**	**9,359**
Other securities	**182,070**	**10,473**	**(1,592)**	**190,951**
Total available-for-sale securities	**$ 2,436,769**	**$ 83,895**	**$ (19,880)**	**$ 2,500,784**
Held-to-Maturity				
U.S. Government-sponsored entities and agencies	**$ 173,936**	**$ 14,327**	**$**	**$ 188,263**
Mortgage-backed securities Agency	**56,612**	**2,307**		**58,919**
States and political subdivisions	**169,282**	**13,739**		**183,021**
Other securities	**2,998**			**2,998**
Total held-to-maturity securities	**$ 402,828**	**$ 30,373**	**$**	**$ 433,201**
2011				
Available-for-Sale				
U.S. Treasury	$ 65,221	$ 548	$	$ 65,769
U.S. Government-sponsored entities and agencies	171,629	1,621	(65)	173,185
Mortgage-backed securities Agency	1,153,629	28,687	(61)	1,182,255
Mortgage-backed securities Non-agency	90,355	418	(4,873)	85,900
States and political subdivisions	376,609	26,428	(193)	402,844
Pooled trust preferred securities	25,461		(18,134)	7,327
Other securities	147,897	8,365	(2,266)	153,996
Total available-for-sale securities	$ 2,030,801	$ 66,067	$ (25,592)	$ 2,071,276
Held-to-Maturity				
U.S. Government-sponsored entities and agencies	$ 177,159	$ 11,434	$	$ 188,593
Mortgage-backed securities Agency	84,075	3,305		87,380
States and political subdivisions	216,345	8,548	(176)	224,717
Other securities	7,011		(2)	7,009
Total held-to-maturity securities	$ 484,590	$ 23,287	$ (178)	$ 507,699

Proceeds from sales of investment securities available-for-sale were $227.6 million in 2012, $546.0 million in 2011 and $481.5 million in 2010. In 2012, realized gains were $14.9 million. Included in the realized gains is $0.8 million of gains that resulted from approximately $148.6 million of investment securities which were called by the issuers. Also impacting earnings in 2012 are $165 thousand of gains associated with the trading securities and $1.4 million of other-than-temporary impairment charges related to credit losses on six non-agency mortgage-backed securities and two trust preferred securities, described below. In 2011, realized gains were $9.6 million and losses were $1.1 million. Included in the realized gains is $0.9 million of gains that resulted from approximately $362.4 million of investment securities which were called by the issuers. Also impacting earnings in 2011 are $21 thousand of gains associated with the trading securities, $158 thousand of gains from mutual funds and $1.4 million of other-than-temporary impairment charges related to credit losses on three non-agency mortgage-backed securities and one trust preferred security, described below. In 2010, realized gains were $21.7 million and losses were $4.6 million. Included in the realized gains is $0.8 million of gains that resulted from approximately $836.1 million of investment securities which were called by the issuers. Also impacting earnings in 2010 are $3.9 million of other-than-temporary impairment charges related to credit losses on three pooled trust preferred securities and ten non-agency mortgage-backed securities, described below. At December 31, investment securities were pledged to secure public and other funds with a carrying value of $834 million in 2012 and $835 million in 2011.

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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 $3.1 million at December 31, 2012 and $2.8 million at December 31, 2011.

At December 31, 2012 and 2011, Old National had a concentration of investment securities issued by Indiana and its political subdivisions totaling $273.8 million and $268.4 million, which represented 22.9% and 26.0% of shareholders equity, respectively.

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.

(dollars in thousands)	2012		Weighted	2011		Weighted
Maturity	**Amortized Cost**	**Fair Value**	**Average Yield**	**Amortized Cost**	**Fair Value**	**Average Yield**
Available-for-sale						
Within one year	**$ 30,284**	**$ 30,544**	**3.19 %**	$ 79,212	$ 79,668	1.61 %
One to five years	**111,294**	**116,982**	**3.33**	123,174	127,761	3.38
Five to ten years	**651,094**	**665,199**	**2.48**	240,215	252,434	3.86
Beyond ten years	**1,644,097**	**1,688,059**	**3.17**	1,588,200	1,611,413	3.32
Total	**$ 2,436,769**	**$ 2,500,784**	**2.99 %**	$ 2,030,801	$ 2,071,276	3.32 %
Held-to-maturity						
Within one year	**$ 3,066**	**$ 3,066**	**2.25 %**	$ 4,075	$ 4,073	1.48 %
One to five years	**2,355**	**2,427**	**3.35**	4,819	4,861	2.60
Five to ten years	**144,701**	**153,882**	**2.94**	151,395	158,366	2.97
Beyond ten years	**252,706**	**273,826**	**4.48**	324,301	340,399	4.47
Total	**$ 402,828**	**$ 433,201**	**3.90 %**	$ 484,590	$ 507,699	3.96 %

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The following table summarizes the investment securities with unrealized losses at December 31 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
2012						
Available-for-Sale						
U.S. Government-sponsored entities and agencies	**$ 201,151**	**$ (938)**	**$**	**$**	**$ 201,151**	**$ (938)**
Mortgage-backed securities Agency	**64,213**	**(447)**			**64,213**	**(447)**
Mortgage-backed securities Non-agency			**5,696**	**(338)**	**5,696**	**(338)**
States and political subdivisions	**63,311**	**(1,040)**			**63,311**	**(1,040)**
Pooled trust preferrred securities			**9,359**	**(15,525)**	**9,359**	**(15,525)**
Other securities	**23,617**	**(162)**	**6,658**	**(1,430)**	**30,275**	**(1,592)**
Total available-for-sale	**$ 352,292**	**$ (2,587)**	**$ 21,713**	**$ (17,293)**	**$ 374,005**	**$ (19,880)**
2011						
Available-for-Sale						
U.S. Government-sponsored entities and agencies	$ 24,935	$ (65)	$	$	$ 24,935	$ (65)
Mortgage-backed securities Agency	49,016	(61)	3		49,019	(61)
Mortgage-backed securities Non-agency	10,053	(353)	59,203	(4,520)	69,256	(4,873)
States and political subdivisions	9,281	(114)	1,345	(79)	10,626	(193)
Pooled trust preferrred securities			7,327	(18,134)	7,327	(18,134)
Other securities	4,516	(141)	6,218	(2,125)	10,734	(2,266)
Total available-for-sale	$ 97,801	$ (734)	$ 74,096	$ (24,858)	$ 171,897	$ (25,592)
Held-to-Maturity						
States and political subdivisions	$ 1,613	$ (1)	$ 13,180	$ (175)	$ 14,793	$ (176)
Other securities	22	(2)			22	(2)
Total held-to-maturity	$ 1,635	$ (3)	$ 13,180	$ (175)	$ 14,815	$ (178)

During the third quarter of 2012, approximately $46.1 million of state and political subdivision securities were transferred from the held-to-maturity portfolio to the available-for-sale portfolio due to changes in circumstances associated with the Office of Management and Budget s report outlining sequestration and the implications for taxable Build America Bonds. The $1.0 million, net of tax, unrealized holding gain was reclassified out of other comprehensive income on the date of transfer.

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 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*).

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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 December 31, 2012, Old National s security portfolio consisted of 1,297 securities, 103 of which were in an unrealized loss position. The Company s non-agency mortgage-backed and pooled trust preferred securities are discussed below. The majority of unrealized losses are related to the Company s pooled trust preferred securities.

Non-agency Mortgage-backed Securities

At December 31, 2012, the Company s securities portfolio contained 7 non-agency collateralized mortgage obligations with a fair value of $30.2 million which had net unrealized gains of approximately $0.8 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 December 31, 2012, six of these securities were rated below investment grade with grades ranging from BB to D. One of the six securities is rated BB and has a fair value of $5.0 million, one of the securities is rated CCC and has a fair value of $12.6 million, one of the securities is rated C with a fair value of $0.4 million and three of the securities are rated D with a fair value of $9.0 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 $0.9 million of credit losses on six of these securities for the twelve months ended December 31, 2012. The fair value of these non-agency mortgage-backed securities remaining at December 31, 2012 was $27.1 million.

At December 31, 2011, the Company s securities portfolio contained 13 non-agency collateralized mortgage obligations with a fair value of $85.9 million which had net unrealized losses of approximately $4.5 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 December 31, 2011, nine of these securities were rated below investment grade with grades ranging from B to D. One of the nine securities was rated B and had a fair value of $13.8 million, two of the securities were rated CCC with a fair value of $24.2 million, four of the securities were rated CC with a fair value of $14.0 million, one of the securities was rated C with a fair value of $17.6 million and one of the securities was rated D with a fair value of $3.6 million. These securities were evaluated to determine if the underlying collateral is expected to experience loss, resulting in a principal loss of the notes. As part of the evaluation, a detailed analysis of deal-specific data was obtained from remittance reports provided by the trustee and data from the servicer. The collateral was broken down into several distinct buckets based on loan performance characteristics in order to apply different assumptions to each bucket. The most significant drivers affecting loan performance were examined including original loan-to-value (LTV), underlying property location and the loan status. The loans in the current status bucket were further divided based on their original LTV: a high-LTV and a low-LTV group to which different default curves and severity percentages were applied. The high-LTV group was further bifurcated into loans originated in high-risk states and all other states with a higher default-curve and severity percentages being applied to loans originated in the high-risk states. Different default curves and severity rates were applied to the remaining non-current collateral buckets. Using these collateral-specific assumptions, a model was built to project the future performance of the instrument. Based on this analysis of the underlying collateral, Old National recorded $0.5 million of credit losses on three of these securities for the twelve months ended December 31, 2011. The fair value of these non-agency mortgage-backed securities remaining at December 31, 2011 was $73.2 million. Due to stabilization in the investment markets, the Company was able to sell six of these securities during 2012 for a small gain.

Pooled Trust Preferred Securities

At December 31, 2012, the Company s securities portfolio contained six pooled trust preferred securities with a fair value of $9.4 million and unrealized losses of $15.5 million. Four 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 $3.9 million with unrealized losses of $6.7 million at December 31, 2012. These securities were rated A2 and A3 at inception, but at December 31, 2012, one security was rated CC, two 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 twelve months ended December 31, 2012, our model indicated other-than-temporary-impairment losses on two securities of $476 thousand, all of which was recorded as a credit loss in earnings. During the fourth quarter of 2012 one of these securities was sold. At December 31, 2012, the fair value of the remaining security was $501 thousand and it was classified as available for sale. At December 31, 2012, the Company has no intent to sell any of these securities that are in an unrealized loss position.

Two of our pooled trust preferred securities with a fair value of $5.5 million and unrealized losses of $8.8 million at December 31, 2012 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.

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At December 31, 2011, the Company s securities portfolio contained eight pooled trust preferred securities with a fair value of $7.3 million and unrealized losses of $18.1 million. Six of the pooled trust preferred securities in our portfolio fell within the scope of FASB ASC 325-10 (EITF 99-20) and had a fair value of $4.2 million with unrealized losses of $7.0 million at December 31, 2011. These securities were rated A2 and A3 at inception, but at December 31, 2011, four securities were rated C and two securities D. The issuers in these securities were primarily banks, but some of the pools did 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 twelve months ended December 31, 2011, our model indicated other-than-temporary-impairment losses on one security of $0.9 million, all of which was recorded as a credit loss in earnings. At December 31, 2011, the fair value of this security was $9 thousand.

Two of our pooled trust preferred securities with a fair value of $3.1 million and unrealized losses of $11.1 million at December 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.

The table below summarizes the relevant characteristics of our six pooled trust preferred securities as well as five single issuer trust preferred securities which are included with other securities in this Note 3 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 six securities have experienced credit defaults. However, two 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 December 31, 2012 (Dollars in Thousands)	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2012	# 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:										
MM Community Funding IX	B-2	CC	$ 2,067	$ 796	$ (1,271)	$	17/29	31.0%	7.1%	0.0%
Reg Div Funding 2004	B-2	D	4,012	501	(3,511)	165	24/44	42.8%	6.2%	0.0%
Pretsl XII	B-1	C	2,799	1,308	(1,491)		46/72	28.3%	8.1%	0.0%
Pretsl XV	B-1	C	1,695	1,256	(439)		49/69	30.3%	6.1%	0.0%
Pretsl XXVII LTD	B	CC	4,904	1,110	(3,794)		33/48	26.6%	22.3%	29.3%
Trapeza Ser 13A	A2A	B	9,407	4,388	(5,019)		43/53	27.7%	17.7%	38.4%
			24,884	9,359	(15,525)	165				
Single Issuer trust preferred securities:										
First Empire Cap (M&T)		BB+	957	1,002	45					
First Empire Cap (M&T)		BB+	2,909	3,006	97					
Fleet Cap Tr V (BOA)		BB	3,366	2,660	(706)					
JP Morgan Chase Cap XIII		BBB	4,723	3,999	(724)					
NB-Global		BB	719	760	41					
			12,674	11,427	(1,247)					

Total	$ 37,558	$ 20,786	$ (16,772)	$ 165

(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 December 31, 2012 and the related credit losses recognized in earnings:

				Amount of other-than-temporary impairment recognized in earnings				
		Lowest		Twelve Months ended December 31,				
	Vintage	Credit Rating (1)	Amortized Cost	2012	2011	2010	2009	Life-to date
Non-agency mortgage-backed securities:								
BAFC Ser 4	2007	CCC	$ 11,985	$ 299	$	$ 79	$ 63	$ 441
CWALT Ser 73CB	2005	D	2,473	151		207	83	441
CWALT Ser 73CB	2005	D	3,561	35		427	182	644
CWHL 2006-10 (2)	2006					309	762	1,071
CWHL 2005-20	2005	C	333			39	72	111
FHASI Ser 4 (2)	2007				340	629	223	1,192
HALO Ser 1R (2)	2006			133	16			149
RFMSI Ser S9 (2)	2006					923	1,880	2,803
RFMSI Ser S10	2006	D	3,148	178	165	76	249	668
RALI QS2 (2)	2006					278	739	1,017
RAST A9	2004			142				142
RFMSI S1 (2)	2006					30	176	206
			21,500	938	521	2,997	4,429	8,885
Pooled trust preferred securities:								
TROPC (2)	2003			311	888	444	3,517	5,160
MM Community Funding IX	2003	CC	2,067			165	2,612	2,777
Reg Div Funding	2004	D	4,012	165		321	5,199	5,685
Pretsl XII	2003	C	2,799				1,897	1,897
Pretsl XV	2004	C	1,695				3,374	3,374
Reg Div Funding (3)	2005						3,767	3,767
			10,573					