UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2013

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of Registrant as specified in its charter)

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

(812) 464-1294

(Registrant s telephone number, including area code)

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

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

Large accelerated filer 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

Indicate the number of shares outstanding of each of the issuer s classes of common stock. The Registrant has one class of common stock (no par value) with 101,367,000 shares outstanding at March 31, 2013.

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OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	March 31, 2013 (unaudited)	December 31, 2012	March 31, 2012 (unaudited)
Assets			
Cash and due from banks	**$ 133,939**	$ 218,276	$ 143,584
Money market and other interest-earning investments	**19,964**	45,784	16,857
Total cash and cash equivalents	**153,903**	264,060	160,441
Trading securities at fair value	**3,217**	3,097	2,972
Investment securities available-for-sale, at fair value			
U.S. Treasury	**11,582**	11,841	65,496
U.S. Government-sponsored entities and agencies	**404,740**	517,325	276,002
Mortgage-backed securities	**1,548,011**	1,193,984	1,295,776
States and political subdivisions	**665,339**	577,324	449,083
Other securities	**218,738**	200,310	165,825
Total investment securities available-for-sale	**2,848,410**	2,500,784	2,252,182
Investment securities held-to-maturity, at amortized cost (fair value $423,325, $433,201 and $496,356 respectively)	**392,379**	402,828	472,377
Federal Home Loan Bank stock, at cost	**37,927**	37,927	30,835
Residential loans held for sale, at fair value	**14,583**	12,591	3,883
Loans:			
Commercial	**1,315,136**	1,336,820	1,180,535
Commercial real estate	**1,230,310**	1,255,883	1,026,899
Residential real estate	**1,352,679**	1,324,703	1,059,977
Consumer credit, net of unearned income	**887,520**	906,855	847,274
Covered loans, net of discount	**326,397**	372,333	548,552
Total loans	**5,112,042**	5,196,594	4,663,237
Allowance for loan losses	**(47,313)**	(49,047)	(54,726)
Allowance for loan losses covered loans	**(6,168)**	(5,716)	(1,190)
Net loans	**5,058,561**	5,141,831	4,607,321
FDIC indemnification asset	**109,861**	116,624	154,301
Premises and equipment, net	**89,847**	89,868	73,089
Accrued interest receivable	**46,575**	46,979	42,281
Goodwill	**338,820**	338,820	253,177
Other intangible assets	**26,695**	29,220	31,603
Company-owned life insurance	**272,273**	270,629	250,164
Assets held for sale	**10,353**	15,047	16,816
Other real estate owned and repossessed personal property	**9,103**	11,179	6,474
Other real estate owned covered	**26,114**	26,137	24,705
Other assets	**235,070**	236,002	198,437
Total assets	**$ 9,673,691**	$ 9,543,623	$ 8,581,058
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 1,973,265**	$ 2,007,770	$ 1,767,972

Interest-bearing:			
NOW	**1,691,231**	1,827,665	1,558,007
Savings	**1,916,880**	1,869,377	1,672,196
Money market	**294,744**	292,860	295,347
Time	**1,190,199**	1,281,281	1,374,255
Total deposits	**7,066,319**	7,278,953	6,667,777
Short-term borrowings	**644,021**	589,815	352,758
Other borrowings	**536,798**	237,493	289,477
Accrued expenses and other liabilities	**226,888**	242,797	220,635
Total liabilities	**8,474,026**	8,349,058	7,530,647
Shareholders Equity			
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding			
Common stock, $1 stated value, 150,000 shares authorized, 101,367, 101,179 and 94,674 shares issued and outstanding, respectively	**101,367**	101,179	94,674
Capital surplus	**917,064**	916,918	833,976
Retained earnings	**160,416**	146,667	103,034
Accumulated other comprehensive income, net of tax	**20,818**	29,801	18,727
Total shareholders equity	**1,199,665**	1,194,565	1,050,411
Total liabilities and shareholders equity	**$ 9,673,691**	$ 9,543,623	$ 8,581,058

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars and shares in thousands, except per share data)	Three Months Ended March 31, 2013	2012
Interest Income		
Loans including fees:		
Taxable	**$ 64,218**	$ 62,130
Nontaxable	**2,179**	2,219
Investment securities, available-for-sale:		
Taxable	**11,072**	11,344
Nontaxable	**4,550**	3,580
Investment securities, held-to-maturity, taxable	**4,070**	4,975
Money market and other interest-earning investments	**13**	15
Total interest income	**86,102**	84,263
Interest Expense		
Deposits	**5,268**	7,682
Short-term borrowings	**267**	127
Other borrowings	**1,517**	2,181
Total interest expense	**7,052**	9,990
Net interest income	**79,050**	74,273
Provision for loan losses	**845**	2,056
Net interest income after provision for loan losses	**78,205**	72,217
Noninterest Income		
Wealth management fees	**5,656**	5,096
Service charges on deposit accounts	**11,098**	12,862
ATM fees	**5,798**	6,333
Mortgage banking revenue	**1,273**	559
Insurance premiums and commissions	**10,943**	9,614
Investment product fees	**3,583**	2,931
Company-owned life insurance	**1,644**	1,495
Net securities gains	**1,019**	619
Total other-than-temporary impairment losses		(96)
Loss recognized in other comprehensive income		
Impairment losses recognized in earnings		(96)
Gain (loss) on derivatives	**(12)**	182
Gain on sale leaseback transactions	**1,584**	1,607
Gain on branch divestitures deposit premium	**2,244**	
Change in FDIC indemnification asset	**(2,302)**	4,764
Other income	**3,787**	3,167
Total noninterest income	**46,315**	49,133
Noninterest Expense		
Salaries and employee benefits	**50,960**	46,046

Occupancy	**12,084**	12,460
Equipment	**2,898**	2,856
Marketing	**1,205**	1,442
Data processing	**5,232**	5,469
Communication	**2,566**	2,824
Professional fees	**3,669**	2,724
Loan expense	**1,616**	1,608
Supplies	**569**	758
FDIC assessment	**1,652**	1,395
Other real estate owned expense	**1,014**	9,807
Amortization of intangibles	**2,525**	2,021
Other expense	**4,193**	1,877
Total noninterest expense	**90,183**	91,287
Income before income taxes	**34,337**	30,063
Income tax expense	**10,392**	8,340
Net income	**$ 23,945**	$ 21,723
Net income per common share basic	**$ 0.24**	$ 0.23
Net income per common share diluted	**0.24**	0.23
Weighted average number of common shares outstanding-basic	**101,081**	94,445
Weighted average number of common shares outstanding-diluted	**101,547**	94,833
Dividends per common share	**$ 0.10**	$ 0.09

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 (unaudited)

(dollars in thousands)	Three Months Ended March 31, 2013	2012
Net income	**$ 23,945**	$ 21,723
Other comprehensive income		
Change in securities available-for-sale:		
Unrealized holding gains (losses) for the period	**(13,783)**	6,240
Reclassification adjustment for securities gains realized in income	**(1,019)**	(619)
Other-than-temporary-impairment on available-for-sale securities associated with credit loss realized in income		96
Income tax effect	**5,409**	(2,316)
Unrealized gains on available-for-sale securities	**(9,393)**	3,401
Change in securities held-to-maturity:		
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	**(177)**	(230)
Income tax effect	**71**	92
Changes from securities held-to-maturity	**(106)**	(138)
Cash flow hedges:		
Net unrealized derivative gains (losses) on cash flow hedges		(240)
Income tax effect		96
Changes from cash flow hedges		(144)
Defined benefit pension plans:		
Amortization of net loss recognized in income	**860**	1,007
Income tax effect	**(344)**	(403)
Changes from defined benefit pension plans	**516**	604
Other comprehensive income, net of tax	**(8,983)**	3,723
Comprehensive income	**$ 14,962**	$ 25,446

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

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

(dollars and shares in thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance, December 31, 2011	$ 94,654	$ 834,033	$ 89,865	$ 15,004	$ 1,033,556
Net income			21,723		21,723
Other comprehensive income				3,723	3,723
Dividends common stock			(8,510)		(8,510)
Common stock issued	5	55			60
Common stock repurchased	(55)	(631)			(686)
Stock based compensation expense		499			499
Stock activity under incentive comp plans	70	20	(44)		46
Balance, March 31, 2012	$ 94,674	$ 833,976	$ 103,034	$ 18,727	$ 1,050,411
Balance, December 31, 2012	**$ 101,179**	**$ 916,918**	**$ 146,667**	**$ 29,801**	**$ 1,194,565**
Net income			**23,945**		**23,945**
Other comprehensive income				**(8,983)**	**(8,983)**
Dividends common stock			**(10,124)**		**(10,124)**
Common stock issued	**6**	**61**			**67**
Common stock repurchased	**(87)**	**(1,088)**			**(1,175)**
Stock based compensation expense		**1,023**			**1,023**
Stock activity under incentive comp plans	**269**	**150**	**(72)**		**347**
Balance, March 31, 2013	**$ 101,367**	**$ 917,064**	**$ 160,416**	**$ 20,818**	**$ 1,199,665**

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Three Months Ended March 31, 2013	2012
Cash Flows From Operating Activities		
Net income	**$ 23,945**	$ 21,723
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**2,501**	2,295
Amortization and impairment of other intangible assets	**2,525**	2,021
Net premium amortization on investment securities	**10,807**	3,728
Change in FDIC indemnification asset	**2,302**	(4,764)
Stock compensation expense	**1,023**	499
Provision for loan losses	**845**	2,056
Net securities gains	**(1,019)**	(619)
Impairment on available-for-sale securities		96
Gain on branch divestitures	**(2,244)**	
Gain on sale leasebacks	**(1,584)**	(1,607)
(Gain) loss on derivatives	**12**	(182)
Net (gains) losses on sales and write-downs of loans and other assets	**(1,147)**	(374)
Loss on retirement of debt	**706**	
Increase in cash surrender value of company owned life insurance	**(1,644)**	(1,471)
Residential real estate loans originated for sale	**(33,836)**	(12,003)
Proceeds from sale of residential real estate loans	**32,701**	13,022
Decrease in interest receivable	**403**	2,520
Decrease in other real estate owned	**2,099**	6,383
Decrease in other assets	**4,658**	4,760
Decrease in accrued expenses and other liabilities	**(13,402)**	(25,691)
Total adjustments	**5,706**	(9,331)
Net cash flows provided by operating activities	**29,651**	12,392
Cash Flows From Investing Activities		
Purchases of investment securities available-for-sale	**(598,663)**	(290,983)
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**221,741**	100,032
Proceeds from sales of investment securities available-for-sale	**11,970**	13,423
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**3,000**	11,157
Proceeds on branch divestitures	**(144,236)**	
Proceeds from sale of loans	**3,187**	782
Reimbursements under FDIC loss share agreements	**3,923**	20,372
Net principal collected from (loans made to) loan customers	**79,238**	98,983
Proceeds from sale of premises and equipment and other assets	**2,904**	3
Purchases of premises and equipment and other assets	**(2,851)**	(3,475)
Net cash flows used in investing activities	**(419,787)**	(49,706)
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Deposits	**(62,499)**	56,214
Short-term borrowings	**54,206**	(72,091)

Payments for maturities on other borrowings	**(112)**	(104)
Payments related to retirement of debt	**(25,706)**	
Proceeds from issuance of other borrowings	**325,000**	
Cash dividends paid on common stock	**(10,124)**	(8,510)
Common stock repurchased	**(1,175)**	(686)
Proceeds from exercise of stock options, including tax benefit	**322**	
Common stock issued	**67**	60
Net cash flows provided by (used in) financing activities	**279,979**	(25,117)
Net decrease in cash and cash equivalents	**(110,157)**	(62,431)
Cash and cash equivalents at beginning of period	**264,060**	222,872
Cash and cash equivalents at end of period	**$ 153,903**	$ 160,441
Supplemental cash flow information:		
Total interest paid	**$ 7,308**	$ 10,608
Total taxes paid (net of refunds)	**$ 4,079**	$ 2,600

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

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OLD NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, valuation 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 March 31, 2013 and 2012, and December 31, 2012, and the results of its operations for the three months ended March 31, 2013 and 2012. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National s Annual Report for the year ended December 31, 2012.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2013 presentation. Such reclassifications had no effect on net income or shareholders equity.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

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 became 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 did 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 became effective for the Company for interim and annual periods beginning after December 15, 2012 and did not have a material impact on the consolidated financial statements.

FASB ASC 405 In February 2013, the FASB issued an update (ASU No. 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date) impacting FASB ASC 405, Liabilities. This update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date as the sum of (1) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (2) any additional amount the reporting entity expects to pay on behalf of its co-obligors. This update also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. This update becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

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NOTE 3 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 increased Old National s position as the third largest branch network in Indiana and allowed 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 20 of these consolidated financial statement footnotes.

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

	Estimated Fair Value (in millions)	Estimated Useful Lives (Years)
Core deposit intangible	$ 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.

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.

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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):

(dollars 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

Divestiture

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 were 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 sales closed during the first quarter of 2013. Deposits at the time of sale were approximately $150.1 million and the Company received a deposit premium of $2.2 million on the sales during the first quarter of 2013.

Pending Acquisition

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 $745.2 million and $8.1 million, respectively, as of March 2013. 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 4 NET INCOME PER SHARE

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

(dollars and shares in thousands, except per share data)	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Basic Earnings Per Share		
Net income	**$ 23,945**	$ 21,723
Weighted average common shares outstanding	**101,081**	94,445
Basic Earnings Per Share	**$ 0.24**	$ 0.23
Diluted Earnings Per Share		
Net income	**$ 23,945**	$ 21,723
Weighted average common shares outstanding	**101,081**	94,445
Effect of dilutive securities:		
Restricted stock	**439**	369
Stock options (1)	**27**	19
Weighted average shares outstanding	**101,547**	94,833
Diluted Earnings Per Share	**$ 0.24**	$ 0.23

(1) Options to purchase 1,025 shares and 3,106 shares outstanding at March 31, 2013 and 2012, respectively, were not included in the computation of net income per diluted share because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would antidilutive.

NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME

The following tables summarize the changes within each classification of accumulated other comprehensive income (AOCI) net of tax for the three months ended March 31, 2013 and summarizes the significant amounts reclassified out of each component of AOCI:

Changes in Accumulated Other Comprehensive Income by Component
For the Three Months Ended March 31, 2013 (a)

	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Defined Benefit Pension Plans	Total
AOCI at January 1, 2013	$ 39,054	$ 3,269	$ (12,522)	$ 29,801
Other comprehensive income before reclassifications	(8,746)			(8,746)
Amounts reclassified from accumulated other comprehensive income (b)	(647)	(106)	516	(237)
Net current-period other comprehensive income	(9,393)	(106)	516	(8,983)
AOCI at March 31, 2013	$ 29,661	$ 3,163	$ (12,006)	$ 20,818

(a) All amounts are net of tax. Amounts in parentheses indicate debits.
(b) See table below for details about reclassifications.

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Reclassifications out of Accumulated Other Comprehensive Income
For the Three Months Ended March 31, 2013 (a)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities			
	$	1,019	Realized gain/(loss) on sale of securities
			Impairment losses
		1,019	Total before tax
		(372)	Tax (expense) or benefit
	$	647	Net of tax
Unrealized gains and losses on held-to-maturity securities			
	$	177	Interest income/(expense)
		(71)	Tax (expense) or benefit
	$	106	Net of tax
Amortization of defined benefit pension items			
Acturial gains/(losses)	$	(860)	(b)
		344	Tax (expense) or benefit
	$	(516)	Net of tax
Total reclassifications for the period	$	237	Net of tax

(a) Amounts in parentheses indicate debits to profit/loss.

(b) This accumulated other comprehensive income component is included in the computation of net periodic pension cost. See Note 14 for additional details on our pension plans.

The following tables summarize the changes within each classification of accumulated other comprehensive income (AOCI) net of tax for the three months ended March 31, 2012 and summarizes the significant amounts reclassified out of each component of AOCI:

Changes in Accumulated Other Comprehensive Income by Component
For the Three Months Ended March 31, 2012 (a)

	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Total
Balance at January 1, 2012	$ 24,612	$ 4,745	$ 145	$ (14,498)	$ 15,004
Other comprehensive income before reclassifications	3,712				3,712
Amounts reclassified from accumulated other comprehensive income (b)	(311)	(138)	(144)	604	11
Net current-period other comprehensive income	3,401	(138)	(144)	604	3,723

Balance at March 31, 2012	$ 28,013	$ 4,607	$ 1	$ (13,894)	$ 18,727

(a) All amounts are net of tax. Amounts in parentheses indicate debits.
(b) See table below for details about reclassifications.

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Reclassifications out of Accumulated Other Comprehensive Income
For the Three Months Ended March 31, 2012

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities			
	$	619	Realized gain/(loss) on sale of securities
		(96)	Impairment losses
		523	Total before tax
		(212)	Tax (expense) or benefit
	$	311	Net of tax
Unrealized gains and losses on held-to-maturity securities			
	$	230	Interest income/(expense)
		(92)	Tax (expense) or benefit
	$	138	Net of tax
Gains and losses on cash flow hedges			
Interest rate contracts	$	240	Interest income/(expense)
		(96)	Tax (expense) or benefit
	$	144	Net of tax
Amortization of defined benefit pension items			
Acturial gains/(losses)	$	(1,007)	(b)
		403	Tax (expense) or benefit
	$	(604)	Net of tax
Total reclassifications for the period	$	(11)	Net of tax

(a) Amounts in parentheses indicate debits to profit/loss.
(b) This accumulated other comprehensive income component is included in the computation of net periodic pension cost. See Note 14 for additional details on our pension plans.

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NOTE 6 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at March 31, 2013 and December 31, 2012 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2013				
Available-for-sale				
U.S. Treasury	**$ 11,202**	**$ 380**	**$**	**$ 11,582**
U.S. Government-sponsored entities and agencies	**403,657**	**2,163**	**(1,080)**	**404,740**
Mortgage-backed securities Agency	**1,492,324**	**31,587**	**(3,923)**	**1,519,988**
Mortgage-backed securities Non-agency	**27,281**	**971**	**(229)**	**28,023**
States and political subdivisions	**639,805**	**30,788**	**(5,254)**	**665,339**
Pooled trust preferred securities	**23,137**		**(14,583)**	**8,554**
Other securities	**201,791**	**9,950**	**(1,557)**	**210,184**
Total available-for-sale securities	**$ 2,799,197**	**$ 75,839**	**$ (26,626)**	**$ 2,848,410**
Held-to-maturity				
U.S. Government-sponsored entities and agencies	**$ 173,120**	**$ 13,848**	**$**	**$ 186,968**
Mortgage-backed securities Agency	**50,187**	**2,485**		**52,672**
States and political subdivisions	**169,072**	**14,613**		**183,685**
Total held-to-maturity securities	**$ 392,379**	**$ 30,946**	**$**	**$ 423,325**
December 31, 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 preferred 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

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

(dollars in thousands) Maturity	March 31, 2013 Amortized Cost	Fair Value	Weighted Average Yield
Available-for-sale			
Within one year	$ 20,098	$ 20,338	3.52%
One to five years	123,271	129,738	3.24
Five to ten years	530,622	543,216	2.52
Beyond ten years	2,125,206	2,155,118	2.86
Total	$ 2,799,197	$ 2,848,410	2.82%
Held-to-maturity			
Within one year	$ 67	$ 67	2.74%
One to five years	17,150	18,187	4.30
Five to ten years	129,340	137,888	2.77
Beyond ten years	245,822	267,183	4.51
Total	$ 392,379	$ 423,325	3.92%

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The following table summarizes the investment securities with unrealized losses at March 31, 2013 and December 31, 2012 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2013						
Available-for-Sale						
U.S. Government-sponsored entities and agencies	**$ 231,588**	**$ (1,080)**	**$**	**$**	**$ 231,588**	**$ (1,080)**
Mortgage-backed securities Agency	**423,162**	**(3,923)**			**423,162**	**(3,923)**
Mortgage-backed securities Non-agency			**5,640**	**(229)**	**5,640**	**(229)**
States and political subdivisions	**189,385**	**(5,253)**	**960**	**(1)**	**190,345**	**(5,254)**
Pooled trust preferred securities			**8,554**	**(14,583)**	**8,554**	**(14,583)**
Other securities	**42,594**	**(384)**	**6,920**	**(1,173)**	**49,514**	**(1,557)**
Total available-for-sale	**$ 886,729**	**$ (10,640)**	**$ 22,074**	**$ (15,986)**	**$ 908,803**	**$ (26,626)**
December 31, 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 preferred 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)

Proceeds from sales and calls of securities available for sale were $133.4 million and $33.0 million for the three months ended March 31, 2013 and 2012, respectively. Gains of $0.7 million and $0.5 million were realized on these sales during 2013 and 2012, respectively. Also included in net securities gains for the first three months of 2013 is $101 thousand of gains associated with the trading securities and $195 thousand of gains from mutual funds. There are no other-than-temporary impairment charges related to credit loss in the first three months of 2013. Impacting earnings in the first three months of 2012 was $101 thousand of gains associated with the trading securities and other-than-temporary impairment charges related to credit loss on three non-agency mortgage-backed securities in the amount of $96 thousand.

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 $3.2 million at March 31, 2013 and $3.1 million 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.

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.

There was no other-than-temporary-impairment recorded in the first quarter of 2013. In the first quarter of 2012, $96 thousand of other-than-temporary-impairment was recorded.

As of March 31, 2013, Old National s securities portfolio consisted of 1,323 securities, 141 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company s pooled trust preferred securities and are discussed below.

Pooled Trust Preferred Securities

At March 31, 2013, the Company s securities portfolio contained five pooled trust preferred securities with a fair value of $8.6 million and unrealized losses of $14.6 million. Three 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 $2.6 million with unrealized losses of $6.2 million at March 31, 2013. These securities were rated A2 and A3 at inception, but at March 31, 2013, one security was rated CC, one security was rated C and one security D. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National s note class. For the three months ended March 31, 2013, our model indicated no other-than-temporary-impairment losses on these securities. During the first quarter of 2013 one of these securities was sold. The Company recorded a gain of $224 thousand associated with this sale. At March 31, 2013, the Company has no intent to sell any of these securities that are in an unrealized loss position.

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Two of our pooled trust preferred securities with a fair value of $6.0 million and unrealized losses of $8.3 million at March 31, 2013 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

For the three months ended March 31, 2012, the six securities subject to FASB ASC 325-10 accounted for $6.8 million of the unrealized losses in the pooled trust preferred securities category. Our analysis indicated no other-than-temporary-impairment on these securities.

Two of our pooled trust preferred securities with a fair value of $3.4 million and unrealized losses of $10.9 million at March 31, 2012 were not subject to FASB ASC 325-10. These securities were evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

The table below summarizes the relevant characteristics of our five pooled trust preferred securities as well as five single issuer trust preferred securities which are included with other securities in Note 6 to the consolidated financial statements. Each of the pooled trust preferred securities support a more senior tranche of security holders except for the MM Community Funding II security which, due to payoffs, Old National is now in the most senior class.

As depicted in the table below, all five 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 March 31, 2013 (Dollars in Thousands)	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2013	# 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	$ 773	$ (1,294)	$	15/28	32.0%	7.2%	0.0%
Reg Div Funding 2004	B-2	D	4,012	542	(3,470)		24/44	42.8%	6.1%	0.0%
Pretsl XII	B-1	C	2,732	1,253	(1,479)		46/71	25.8%	7.3%	0.0%
Pretsl XXVII LTD	B	CC	4,916	1,288	(3,628)		33/47	25.1%	4.7%	33.9%
Trapeza Ser 13A	A2A	B	9,410	4,698	(4,712)		43/53	27.6%	5.4%	38.1%
			23,137	8,554	(14,583)					
Single Issuer trust preferred securities:										
First Empire Cap (M&T)		BB+	957	1,012	55					
First Empire Cap (M&T)		BB+	2,909	3,035	126					
Fleet Cap Tr V (BOA)		BB	3,367	2,782	(585)					
JP Morgan Chase Cap XIII		BBB	4,726	4,137	(589)					
NB-Global		BB	723	795	72					
			12,682	11,761	(921)					
Total			$ 35,819	$ 20,315	$ (15,504)	$				

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

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The following table details all securities with other-than-temporary-impairment, their credit rating at March 31, 2013, and the related life-to-date credit losses recognized in earnings:

				Amount of other-than-temporary impairment recognized in earnings					
	Vintage	Lowest Credit Rating (1)	Amortized Cost	Three Months ended March 31, 2013	2012	Year ended December 31, 2011	2010	2009	Life-to date
Non-agency mortgage-backed securities:									
BAFC Ser 4	2007	CCC	$ 11,275	$	$ 299	$	$ 79	$ 63	$ 441
CWALT Ser 73CB	2005	D	2,406		151		207	83	441
CWALT Ser 73CB	2005	D	3,463		35		427	182	644
CWHL 2006-10 (2)	2006						309	762	1,071
CWHL 2005-20	2005						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	2,995		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
			20,139		938	521	2,997	4,429	8,885
Pooled trust preferred securities:									
TROPC (2)	2003					888	444	3,517	4,849
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	2,732					1,897	1,897
Pretsl XV (2)	2004							3,374	3,374
Reg Div Funding (3)	2005				311			3,767	4,078
			8,811		476	888	930	20,366	22,660
Total other-than-temporary- impairment recognized in earnings				$	$ 1,414	$ 1,409	$ 3,927	$ 24,795	$ 31,545

(1) Lowest rating for the security provided by any nationally recognized credit rating agency.
(2) Securities sold.
(3) Security written down to zero.

NOTE 7 LOANS HELD FOR SALE

Residential loans that Old National has committed to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). At March 31, 2013 and December 31, 2012, Old National had residential loans held for sale of $14.6 million and $12.6 million, respectively.

During the first three months of 2013, commercial and commercial real estate loans held for investment of $2.5 million, including $0.4 million of purchased impaired loans, were reclassified to loans held for sale at the lower of cost or fair value and sold for $3.2 million, resulting in a charge-off of $0.3 million and other income of $1.0 million. At March 31, 2013, there were no loans held for sale under this arrangement.

During the first three months of 2012, commercial and commercial real estate loans held for investment of $0.6 million, including $0.5 million of purchased impaired loans, were reclassified to loans held for sale at the lower of cost or fair value and sold for $0.8 million, resulting in a charge-off of $0.1 million and a recovery of $0.3 million. At March 31, 2012, there were no loans held for sale under this arrangement.

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NOTE 8 LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

The composition of loans by lending classification was as follows:

(dollars in thousands)	**March 31, 2013**	December 31, 2012
Commercial (1)	**$ 1,315,136**	$ 1,336,820
Commercial real estate:		
Construction	**87,434**	99,081
Other	**1,142,876**	1,156,802
Residential real estate	**1,352,679**	1,324,703
Consumer credit:		
Heloc	**248,239**	258,114
Auto	**531,077**	526,085
Other	**108,204**	122,656
Covered loans	**326,397**	372,333
Total loans	**5,112,042**	5,196,594
Allowance for loan losses	**(47,313)**	(49,047)
Allowance for loan losses covered loans	**(6,168)**	(5,716)
Net loans	**$ 5,058,561**	$ 5,141,831

(1) Includes direct finance leases of $52.4 million at March 31, 2013 and $57.7 million at December 31, 2012.

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

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

Commercial

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

Commercial real estate

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

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

Residential

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

Consumer

Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Covered Loans

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 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 March 31, 2013, 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.

Allowance for loan losses

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

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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.

No allowance was brought forward on any of the acquired loans as any credit deterioration evident in the loans was included in the determination of the fair value of the loans at the acquisition date. Purchased credit impaired (PCI) loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. Impairment on PCI loans would be recognized in the current period as provision expense.

Old National s activity in the allowance for loan losses for the three months ended March 31, 2013 and 2012 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2013						
Allowance for loan losses:						
Beginning balance	$ 14,642	$ 31,289	$ 5,155	$ 3,677		$ 54,763
Charge-offs	(1,110)	(1,736)	(1,902)	(257)		(5,005)
Recoveries	715	889	1,234	40		2,878
Provision	2,720	(1,996)	198	(77)		845
Ending balance	$ 16,967	$ 28,446	$ 4,685	$ 3,383		$ 53,481

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2012						
Allowance for loan losses:						
Beginning balance	$ 19,964	$ 26,993	$ 6,954	$ 4,149		$ 58,060
Charge-offs	(1,268)	(3,375)	(2,425)	(560)		(7,628)
Recoveries	1,444	568	1,337	79		3,428
Provision	(2,046)	3,632	(220)	690		2,056
Ending balance	$ 18,094	$ 27,818	$ 5,646	$ 4,358		$ 55,916

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The following tables provide Old National s recorded investment in financing receivables by portfolio segment at March 31, 2013 and December 31, 2012 and other information regarding the allowance:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
March 31, 2013						
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 4,325	$ 2,483				$ 6,808
Ending balance: collectively evaluated for impairment	$ 10,061	$ 14,604	$ 2,643	$ 3,069		$ 30,377
Ending balance: loans acquired with deteriorated credit quality	$ 1,311	$ 7,543	1,098	$ 176		$ 10,128
Ending balance: covered loans acquired with deteriorated credit quality	$ 1,270	$ 3,816	$ 944	$ 138		$ 6,168
Total allowance for credit losses	$ 16,967	$ 28,446	$ 4,685	$ 3,383		$ 53,481
Loans and leases outstanding:						
Ending balance: individually evaluated for impairment	$ 27,100	$ 55,094				$ 82,194
Ending balance: collectively evaluated for impairment	$ 1,282,286	$ 1,135,456	$ 887,520	$ 1,352,679		$ 4,657,941
Ending balance: loans acquired with deteriorated credit quality	$ 5,750	$ 39,760				$ 45,510
Ending balance: covered loans acquired with deteriorated credit quality	$ 46,080	$ 153,922	$ 92,259	$ 34,136		$ 326,397
Total loans and leases outstanding	$ 1,361,216	$ 1,384,232	$ 979,779	$ 1,386,815		$ 5,112,042

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
December 31, 2012						
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 4,702	$ 2,790				$ 7,492
Ending balance: collectively evaluated for impairment	$ 9,900	$ 14,643	$ 3,384	$ 3,637		$ 31,564
Ending balance: loans acquired with deteriorated credit quality	$ 40	$ 8,958	$ 953	$ 40		$ 9,991
Ending balance: covered loans acquired with deteriorated credit quality		$ 4,898	$ 818			$ 5,716
Total allowance for credit losses	$ 14,642	$ 31,289	$ 5,155	$ 3,677		$ 54,763

Loans and leases outstanding:						
Ending balance: individually evaluated for impairment	$ 29,980	$ 47,257				$ 77,237
Ending balance: collectively evaluated for impairment	$ 1,298,433	$ 1,163,595	$ 906,855	$ 1,324,703		$ 4,693,586
Ending balance: loans acquired with deteriorated credit quality	$ 8,407	$ 45,031				$ 53,438
Ending balance: covered loans acquired with deteriorated credit quality	$ 55,639	$ 182,826	$ 97,972	$ 35,896		$ 372,333
Total loans and leases outstanding	$ 1,392,459	$ 1,438,709	$ 1,004,827	$ 1,360,599		$ 5,196,594

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Credit Quality

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

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

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

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

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

As of March 31, 2013 and December 31, 2012, the risk category of loans, excluding covered loans, by class of loans is as follows:

(dollars in thousands)
Corporate Credit

Exposure by Internally Assigned Grade	Commercial		Commercial Real Estate-Construction		Commercial Real Estate-Other	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Grade:						
Pass	$ 1,195,000	$ 1,237,274	$ 56,763	$ 62,604	$ 962,717	$ 965,967
Criticized	62,769	38,476	11,831	11,969	52,652	62,819
Classified substandard	23,013	23,388	9,086	10,204	41,467	38,252
Classified doubtful	34,354	37,682	9,754	14,304	86,040	89,764
Total	$ 1,315,136	$ 1,336,820	$ 87,434	$ 99,081	$ 1,142,876	$ 1,156,802

Old National considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, Old National also evaluates credit quality based on the aging status of the loan and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of March 31, 2013 and December 31, 2012, excluding covered loans:

March 31, 2013 (dollars in thousands)	Consumer			Residential
	Heloc	Auto	Other	
Performing	$ 246,401	$ 529,417	$ 106,313	$ 1,342,915
Nonperforming	1,838	1,660	1,891	9,764

	$ 248,239	$ 531,077	$ 108,204	$ 1,352,679

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December 31, 2012 (dollars in thousands)	Heloc	Consumer Auto	Other	Residential
Performing	$ 256,394	$ 524,105	$ 120,547	$ 1,312,717
Nonperforming	1,720	1,980	2,109	11,986
	$ 258,114	$ 526,085	$ 122,656	$ 1,324,703

Impaired Loans

Large commercial credits are subject to individual evaluation for impairment. Retail credits and other small balance credits that are part of a homogeneous group are not tested for individual impairment unless they are modified as a troubled debt restructuring. 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 all but purchased credit impaired loans, is to recognize interest income on impaired loans unless the loan is placed on nonaccrual status. For the three months ended March 31, 2013 and 2012, the average balance of impaired loans was $79.7 million and $89.2 million, respectively, for which no interest income was recorded. No additional funds are committed to be advanced in connection with these impaired loans.

The following table shows Old National s impaired loans, excluding covered loans, that are individually evaluated as of March 31, 2013 and December 31, 2012. Of the loans purchased during 2012 and 2011 without FDIC loss share coverage, only those that have experienced subsequent impairment since the date acquired are included in the table below. Purchased loans of $11.3 million migrated to classified-doubtful during the first quarter of 2013. Purchased loans of $8.3 million migrated to classified-doubtful during the year ended December 31, 2012.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
March 31, 2013			
With no related allowance recorded:			
Commercial	$ 7,941	$ 10,384	$
Commercial Real Estate Construction	1,104	1,212	
Commercial Real Estate Other	16,250	22,145	
With an allowance recorded:			
Commercial	19,159	24,358	4,325
Commercial Real Estate Construction	2,523	2,523	69
Commercial Real Estate Other	35,217	36,909	2,414
Total Commercial	$ 82,194	$ 97,531	$ 6,808
December 31, 2012			
With no related allowance recorded:			
Commercial	$ 6,563	$ 9,280	$
Commercial Real Estate Construction	1,179	1,287	
Commercial Real Estate Other	16,944	23,162	
With an allowance recorded:			
Commercial	23,417	28,574	4,702
Commercial Real Estate Construction	3,227	3,227	69
Commercial Real Estate Other	25,907	28,732	2,721
Total Commercial	$ 77,237	$ 94,262	$ 7,492

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The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the three months ended March 31, 2013 and 2012 are included in the tables below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
March 31, 2013		
With no related allowance recorded:		
Commercial	$ 7,252	$
Commercial Real Estate Construction	1,142	
Commercial Real Estate Other	16,598	4
With an allowance recorded:		
Commercial	21,289	10
Commercial Real Estate Construction	2,875	
Commercial Real Estate Other	30,562	109
Total Commercial	$ 79,718	$ 123

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

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
March 31, 2012		
With no related allowance recorded:		
Commercial	$ 8,696	$ 114
Commercial Real Estate Construction	1,551	2
Commercial Real Estate Other	28,130	186
With an allowance recorded:		
Commercial	22,502	274
Commercial Real Estate Construction	1,190	22
Commercial Real Estate Other	27,160	283
Total Commercial	$ 89,229	$ 881

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

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.

Covered 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. Similar to uncovered loans, covered loans accounted for outside FASB ASC Topic 310-30 are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful. Information for covered loans accounted for both under and outside FASB ASC Topic 310-30 is included in the table below in the row labeled covered loans.

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Old National s past due financing receivables as of March 31, 2013 and December 31, 2012 are as follows:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Recorded Investment > 90 Days and Accruing	Nonaccrual	Total Past Due	Current
March 31, 2013						
Commercial	$ 1,236	$ 289	$ 384	$ 34,354	$ 36,263	$ 1,278,873
Commercial Real Estate:						
Construction	84			9,754	9,838	77,596
Other	1,808	1,095	256	86,040	89,199	1,053,677
Consumer:						
Heloc	1,311	132	75	1,838	3,356	244,883
Auto	3,346	427	61	1,660	5,494	525,583
Other	1,162	271	107	1,891	3,431	104,773
Residential	10,023	557	1,075	9,764	21,419	1,331,260
Covered loans	2,255	441	30	65,171	67,897	258,500
Total loans	$ 21,225	$ 3,212	$ 1,988	$ 210,472	$ 236,897	$ 4,875,145
December 31, 2012						
Commercial	$ 2,691	$ 515	$ 322	$ 36,766	$ 40,294	$ 1,296,526
Commercial Real Estate:						
Construction	11			14,304	14,315	84,766
Other	3,439	665	236	81,525	85,865	1,070,937
Consumer:						
Heloc	961	15		1,720	2,696	255,418
Auto	4,070	881	328	1,980	7,259	518,826
Other	1,732	403	110	2,109	4,354	118,302
Residential	14,686	1,874	66	11,986	28,612	1,296,091
Covered loans	2,891	941	15	103,946	107,793	264,540
Total loans	$ 30,481	$ 5,294	$ 1,077	$ 254,336	$ 291,188	$ 4,905,406

Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At March 31, 2013, these loans totaled $224.5 million, of which $146.7 million had been sold to other financial institutions and $77.8 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder, involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder, all cash flows are divided among the participating interest holders in proportion to each holder s share of ownership and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

Troubled Debt Restructurings

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 three months ended March 31, 2013, 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.

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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 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 loans 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.

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 March 31, 2013, our troubled debt restructurings consisted of $12.0 million of commercial loans, $17.6 million of commercial real estate loans, $0.9 million of consumer loans and $0.5 million of residential loans, totaling $31.0 million. Approximately $20.8 million of the troubled debt restructuring at March 31, 2013 were included with nonaccrual loans. 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 restructuring at December 31, 2012 were included with nonaccrual loans.

As of March 31, 2013 and December 31, 2012, Old National has allocated $3.2 million and $4.5 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings, respectively. Old National has not committed to lend any additional amounts as of March 31, 2013 and December 31, 2012, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ended March 31, 2013:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	5	$ 695	$ 668
Commercial Real Estate construction			
Commercial Real Estate other	9	1,076	949
Consumer other	24	533	477
Total	38	$ 2,304	$ 2,094

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The troubled debt restructurings described above increased the allowance for loan losses by $0.4 million and resulted in no charge-offs during the three months ended March 31, 2013.

The following table presents loans by class modified as troubled debt restructurings that occurred during the twelve months ended December 31, 2012:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	44	$ 9,585	$ 9,574
Commercial Real Estate construction	3	1,392	1,382
Commercial Real Estate other	35	16,404	16,272
Consumer other	26	996	994
Total	108	$ 28,377	$ 28,222

The troubled debt restructurings described above increased the allowance for loan losses by $0.4 million and resulted in charge-offs of $1.0 million during the twelve months ended December 31, 2012.

The following table presents loans by class modified as troubled debt restructuring for which there was a payment default within last twelve months following the modification during the three months ended March 31, 2013. The impact of the defaults was immaterial.

(dollars in thousands)	Number of Contracts	Recorded Investment
Troubled Debt Restructuring		
That Subsequently Defaulted:		
Commercial	4	$ 133
Commercial Real Estate	5	539
Total	9	$ 672

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the twelve months ended December 31, 2012:

(dollars in thousands)	Number of Contracts	Recorded Investment
Troubled Debt Restructuring		
That Subsequently Defaulted:		
Commercial	8	$ 500
Commercial Real Estate	7	611
Total	15	$ 1,111

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

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 had the maturity date extended. 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.

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Purchased credit impaired (PCI) loans are not 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.

The following table presents activity in troubled debt restructurings for the three months ended March 31, 2013 and 2012:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Total
2013					
Troubled debt restructuring:					
Balance, January 1, 2013	$ 12,660	$ 18,422	$ 473	$ 499	$ 32,054
Charge-offs	(27)	(2)	(87)		(116)
Payments	(1,286)	(1,722)	(12)	(34)	(3,054)
Additions	668	949	472	5	2,094
Balance March 31, 2013	$ 12,015	$ 17,647	$ 846	$ 470	$ 30,978

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Total
2012					
Troubled debt restructuring:					
Balance, January 1, 2012	$ 7,086	$ 5,851	$ 53	$	$ 12,990
Charge-offs	(565)	55			(510)
Payments	(618)	(1,655)			(2,273)
Additions	1,862	3,299	104	76	5,341
Balance March 31, 2012	$ 7,765	$ 7,550	$ 157	$ 76	$ 15,548

Purchased Impaired Loans (non-covered loans)

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. In determining the estimated fair value of purchased loans, management considers a number of factors including the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, net present value of cash flows expected to be received, among others. Purchased loans are accounted for in accordance with guidance for certain loans acquired in a transfer (ASC 310-30), 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 expected 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.

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Old National has purchased loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. Of these acquired credit impaired loans, $4.0 million in carrying balances did not meet the criteria to be accounted for under the guidance of ASC 310-30 as they were revolving lines of credit, thus these lines have not been included in the following table. For these noncovered loans that meet the criteria of ASC 310-30 treatment, the carrying amount is as follows:

(dollars in thousands)	March 31, 2013	December 31, 2012
Commercial	$ 5,765	$ 7,859
Commercial real estate	44,014	52,981
Consumer	19,230	22,432
Residential	121	123
Carrying amount	$ 69,130	$ 83,395
Carrying amount, net of allowance	$ 65,168	$ 79,120
Allowance for loan losses	$ 3,962	$ 4,275

The outstanding balance of noncovered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $162.4 million and $179.5 million as of March 31, 2013 and December 31, 2012, respectively.

The accretable difference on purchased loans acquired in a business combination is the difference between the expected cash flows and the net present value of expected cash flows with such difference accreted into earnings using the effective yield method over the term of the loans. Accretion of $4.0 million has been recorded as loan interest income through the three months ended March 31, 2013. Accretion of $2.2 million was recorded as loan interest income through the three months ended March 31, 2012. Improvement in cash flow expectations has resulted in a reclassification from nonaccretable difference to accretable yield.

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

(dollars in thousands)	Monroe	Integra Noncovered	IBT	Total
Balance at January 1, 2013	$ 11,834	$ 3,575	$ 16,170	$ 31,579
New loans purchased				
Accretion of income	(2,005)	(389)	(1,596)	(3,990)
Reclassifications from (to) nonaccretable difference	(254)	37	1,444	1,227
Disposals/other adjustments	(304)	(1)		(305)
Balance at March 31, 2013	$ 9,271	$ 3,222	$ 16,018	$ 28,511

Included in Old National s allowance for loan losses is $4.0 million related to the purchased loans disclosed above for the first three months of 2013. Included in Old National s allowance for loan losses was $4.3 million related to the purchased loans in 2012. An immaterial amount of allowances for loan losses were reversed during 2013 and 2012 related to these loans.

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

(dollars in thousands)	Monroe Bancorp	Integra Bank (1)	IBT
Contractually required payments	$ 94,714	$ 921,856	$ 118,535
Nonaccretable difference	(45,157)	(226,426)	(53,165)
Cash flows expected to be collected at acquisition	49,557	695,430	65,370
Accretable yield	(6,971)	(98,487)	(11,945)
Fair value of acquired loans at acquisition	$ 42,586	$ 596,943	$ 53,425

(1) Includes covered and noncovered.

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

NOTE 9 COVERED LOANS

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements. The carrying amount of covered loans was $326.4 million at March 31, 2013. The composition of covered loans by lending classification was as follows:

	At March 31, 2013		
(dollars in thousands)	Loans Accounted for Under ASC 310-30 (Purchased Credit Impaired)	Loans excluded from ASC 310-30 (1) (Not Purchased Credit Impaired)	Total Covered Purchased Loans
Commercial	$ 19,089	$ 26,991	$ 46,080
Commercial real estate	134,090	19,832	153,922
Residential	33,986	150	34,136
Consumer	23,373	68,886	92,259
Covered loans	210,538	115,859	326,397
Allowance for loan losses	(6,168)		(6,168)
Covered loans, net	$ 204,370	$ 115,859	$ 320,229

(1) Includes loans with revolving privileges which are scoped out of FASB ASC 310-30 and certain loans which Old National elected to treat under the cost recovery method of accounting.

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

The outstanding balance of covered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $487.3 million and $534.3 million as of March 31, 2013 and December 31, 2012, respectively.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics which were treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan losses. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan s or pool s remaining life. Eighty percent of the prospective yield adjustments are offset as Old National will recognize a corresponding decrease in cash flows expected from the indemnification asset prospectively in a similar manner. The indemnification asset is adjusted over the shorter of the life of the underlying investment or the indemnification agreement.

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Accretable yield, or income expected to be collected on the covered loans accounted for under ASC 310-30, is as follows:

(dollars in thousands)	2013	2012
Balance at January 1,	$ 85,779	$ 92,053
New loans purchased		
Accretion of income	(10,343)	(12,704)
Reclassifications from (to) nonaccretable difference	7,554	13,024
Disposals/other adjustments	437	13,078
Balance at March 31,	$ 83,427	$ 105,451

At March 31, 2013, the loss sharing asset is comprised of a $97.2 million FDIC indemnification asset and a $12.7 million FDIC loss share receivable. The loss share receivable represents actual incurred losses where reimbursement has not yet been received from the FDIC. The indemnification asset represents future 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 March 31, 2013, $84.3 million of the FDIC indemnification asset is related to expected indemnification payments and $12.9 million is expected to be amortized and reported in noninterest income as an offset to future accreted interest income.

For covered loans, the Company remeasures contractual and expected cash flows on a quarterly basis. When the quarterly re-measurement process results in a decrease in expected cash flows due to an increase in expected credit losses, impairment is recorded. As a result of this impairment, the indemnification asset is increased to reflect anticipated future cash flows to be received from the FDIC. Consistent with the loss sharing agreements between the Company and the FDIC, the amount of the increase to the indemnification asset is measured at 80% of the resulting impairment.

Alternatively, when the quarterly re-measurement results in an increase in expected future cash flows due to a decrease in expected credit losses, the nonaccretable difference decreases and the effective yield of the related loan portfolio is increased. As a result of the improved expected cash flows, the indemnification asset would be reduced first by the amount of any impairment previously recorded and, second, by increased amortization over the remaining life of the related loss sharing agreements.

The following table shows a detailed analysis of the FDIC loss sharing asset for the three months ended March 31, 2013 and 2012:

(dollars in thousands)	2013	2012
Balance at January 1,	$ 116,624	$ 168,881
Adjustments not reflected in income:		
Established through acquisitions		
Cash received from FDIC	(3,923)	(20,372)
Loan expenses to be reimbursed	380	1,029
Other	(918)	(1)
Adjustments reflected in income:		
(Amortization) accretion	(1,612)	(2,938)
Impairment	120	
Write-downs/sale of other real estate	372	7,160
Recovery amounts due to FDIC	(1,243)	
Other	61	542
Balance at March 31,	$ 109,861	$ 154,301

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NOTE 10 OTHER REAL ESTATE OWNED

The following table shows the carrying amount for other real estate owned at March 31, 2013 and 2012:

(dollars in thousands)	Other Real Estate Owned (1)	Other Real Estate Owned, Covered
Balance, January 1, 2013	$ 11,179	$ 26,137
Additions	1,141	2,035
Sales	(2,613)	(1,356)
Gains (losses)/Write-downs	(604)	(702)
Balance, March 31, 2013	$ 9,103	$ 26,114

(1) Includes $0.4 million of repossessed personal property at March 31, 2013.

(dollars in thousands)	Other Real Estate Owned (1)	Other Real Estate Owned, Covered
Balance, January 1, 2012	$ 7,119	$ 30,443
Additions	746	6,682
Sales	(799)	(2,817)
Gains (losses)/Write-downs	(592)	(9,603)
Balance, March 31, 2012	$ 6,474	$ 24,705

(1) Includes $0.4 million of repossessed personal property at March 31, 2012.

Covered OREO expenses and valuation write-downs are recorded in the noninterest expense section of the consolidated statements of income. Under the loss sharing agreements, the FDIC will reimburse the Company for 80% of expenses and valuation write-downs related to covered assets up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0%, and 80% of losses in excess of $467.2 million. As of March 31, 2013, we do not expect losses to exceed $275.0 million. The reimbursable portion of these expenses is recorded in the FDIC indemnification asset. Changes in the FDIC indemnification asset are recorded in the noninterest income section of the consolidated statements of income.

NOTE 11 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill by segment for the three months ended March 31, 2013 and 2012:

(dollars in thousands)	**Community Banking**	**Other**	**Total**
Balance, January 1, 2013	**$ 297,055**	**$ 41,765**	**$ 338,820**
Goodwill acquired during the period			
Balance, March 31, 2013	**$ 297,055**	**$ 41,765**	**$ 338,820**

Balance, January 1, 2012	$ 212,412	$ 40,765	$ 253,177
Goodwill acquired during the period			
Balance, March 31, 2012	$ 212,412	$ 40,765	$ 253,177

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2012 and concluded that, based on current events and circumstances, it is not more likely than not that the carry value of goodwill exceeds fair value. During the second half of 2012, Old National recorded $85.6 million of goodwill associated with the acquisition of Indiana Community Bancorp, of which $84.6 million was allocated to the Community Banking segment and $1.0 million to the Other segment.

The gross carrying amount and accumulated amortization of other intangible assets at March 31, 2013 and December 31, 2012 was as follows:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
March 31, 2013			
Amortized intangible assets:			
Core deposit	**$ 40,559**	**$ (27,696)**	**$ 12,863**
Customer business relationships	**26,411**	**(18,603)**	**7,808**
Customer trust relationships	**5,352**	**(1,267)**	**4,085**
Customer loan relationships	**4,413**	**(2,474)**	**1,939**
Total intangible assets	**$ 76,735**	**$ (50,040)**	**$ 26,695**
December 31, 2012			
Amortized intangible assets:			
Core deposit	$ 40,559	$ (25,908)	$ 14,651
Customer business relationships	26,411	(18,153)	8,258
Customer trust relationships	5,352	(1,080)	4,272
Customer loan relationships	4,413	(2,374)	2,039
Total intangible assets	$ 76,735	$ (47,515)	$ 29,220

Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 5 to 15 years. During the third quarter of 2012, Old National increased core deposit intangibles by $1.3 million related to the acquisition of Indiana Community Bancorp, which is included in the Community Banking segment. Also during the third quarter of 2012, Old National increased customer relationship intangibles by $1.7 million associated with the trust business of Indiana Community Bancorp, which is included in the Other segment. During the second quarter of 2012, Old National increased customer business relationships by $0.5 million relating to the purchase of an insurance book of business, which is included in the Other segment.

Old National reviews other intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. No impairment charges were recorded in 2013 or 2012. Total amortization expense associated with other intangible assets for the three months ended March 31 was $2.5 million in 2013 and $2.0 million in 2012. Included in expense for the first quarter of 2013 is $0.6 million related to the branch sales.

Estimated amortization expense for future years is as follows:

(dollars in thousands)	
2013 remaining	$ 5,189
2014	5,800
2015	4,688
2016	3,767
2017	2,523
Thereafter	4,728
Total	$ 26,695

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NOTE 12 SHORT-TERM BORROWINGS

The following table presents the distribution of Old National s short-term borrowings and related weighted-average interest rates as of March 31, 2013:

(dollars in thousands)	Federal Funds Purchased	Repurchase Agreements	Total
2013			
Outstanding at March 31, 2013	**$ 306,986**	**$ 337,035**	**$ 644,021**
Average amount outstanding	**332,568**	**351,977**	**684,545**
Maximum amount outstanding at any month-end	**466,861**	**343,288**	
Weighted average interest rate:			
During three months ended March 31, 2013	**0.22%**	**0.10%**	**0.16%**
At March 31, 2013	**0.20**	**0.30**	**0.25**

NOTE 13 FINANCING ACTIVITIES

The following table summarizes Old National s and its subsidiaries other borrowings at March 31, 2013 and December 31, 2012:

(dollars in thousands)	March 31, 2013	December 31, 2012
Old National Bancorp:		
Junior subordinated debenture (variable rates of 1.88% to 2.03%) maturing March 2035 to June 2037	**$ 28,000**	$ 28,000
ASC 815 fair value hedge and other basis adjustments	**(3,320)**	(3,339)
Old National Bank:		
Securities sold under agreements to repurchase (variable rates 3.62% to 3.82%) maturing October 2014	**50,000**	50,000
Federal Home Loan Bank advances (fixed rates 0.17% to 8.34% and variable rate 2.58%) maturing April 2013 to January 2023	**455,224**	155,323
Capital lease obligation	**4,198**	4,211
ASC 815 fair value hedge and other basis adjustments	**2,696**	3,298
Total other borrowings	**$ 536,798**	$ 237,493

Contractual maturities of other borrowings at March 31, 2013, were as follows:

(dollars in thousands)	
Due in 2013	$ 350,349
Due in 2014	50,794
Due in 2015	63
Due in 2016	17,413
Due in 2017	21,144
Thereafter	97,659
ASC 815 fair value hedge and other basis adjustments	(624)
Total	$ 536,798

FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances had weighted-average rates of 1.06% and 3.07% at March 31, 2013, and December 31, 2012, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 145% of outstanding debt.

In the first quarter of 2013, Old National terminated a $25.0 million Federal Home Loan Bank advance, resulting in a loss on extinguishment of debt of $0.7 million. Old National also restructured $33.4 million pertaining to two FHLB advances in the first quarter of 2013, which lowered their effective interest rates from 3.27% and 3.29% to 2.04% and 2.49%, respectively.

JUNIOR SUBORDINATED DEBENTURES

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

In 2007, Old National acquired St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust II. St. Joseph Capital Trust II issued $5.0 million in preferred securities in March 2005. The preferred securities had a cumulative annual distribution rate of 6.27% until March 2010 and now carry a variable rate of interest priced at the three-month LIBOR plus 175 basis points, payable quarterly and maturing on March 17, 2035. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust II. Old National, at any time, may redeem the junior subordinated debentures at par and thereby cause a redemption of the trust preferred securities.

In 2011, Old National acquired Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II in conjunction with its acquisition of Monroe Bancorp. Old National guarantees the payment of distributions on the trust preferred securities issued by Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II. Monroe Bancorp Capital Trust I issued $3.0 million in preferred securities in July 2006. The preferred securities carried a fixed rate of interest of 7.15% until October 7, 2011 and thereafter a variable rate of interest priced at the three-month LIBOR plus 160 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Capital Trust I. Monroe Bancorp Statutory Trust II issued $5.0 million in preferred securities in March 2007. The preferred securities carried a fixed rate of interest of 6.52% until June 15, 2012 and thereafter a variable rate of interest priced at the three-month LIBOR plus 160 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Statutory Trust II. Old National, at any time, may redeem the junior subordinated debentures at par and thereby cause a redemption of the trust preferred securities in whole or in part.

In 2012, Old National acquired Home Federal Statutory Trust I in conjunction with its acquisition of Indiana Community Bancorp. Old National guarantees the payment of distributions on the trust preferred securities issued by Home Federal Statutory Trust I. Home Federal Statutory Trust I issued $15.0 million in preferred securities in September 2006. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 165 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Home Federal Statutory Trust I. Old National, at any time, may redeem the junior subordinated debentures at par and thereby cause a redemption of the trust preferred securities in whole or in part.

CAPITAL LEASE OBLIGATION

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

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At March 31, 2013, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)	
2013 remaining	$ 292
2014	410
2015	410
2016	410
2017	410
Thereafter	9,675
Total minimum lease payments	11,607
Less amounts representing interest	7,409
Present value of net minimum lease payments	$ 4,198

NOTE 14 EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five years of employment. The freezing of the plan provides that future salary increases will not be considered. Old National s policy is to contribute at least the minimum funding requirement determined by the plan s actuary. Old National expects to contribute approximately $180 thousand to the Retirement Plan in 2013.

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

Old National contributed $33 thousand to cover benefit payments from the Restoration Plan during the first three months of 2013. Old National expects to contribute an additional $90 thousand to cover benefit payments from the Restoration Plan during the remainder of 2013.

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

	Three Months Ended March 31,	
(dollars in thousands)	**2013**	**2012**
Interest cost	**$ 435**	$ 493
Expected return on plan assets	**(551)**	(586)
Recognized actuarial loss	**580**	1,006
Settlement	**279**	
Net periodic benefit cost	**$ 743**	$ 913

On September 15, 2012, Old National assumed Indiana Bank and Trust s Pentegra Defined Benefit Plan for Financial Institutions. This defined benefit pension plan has been frozen since April 1, 2008. The trustees of the Financial Institutions Retirement Fund administer the Pentegra Plan, employer identification number 13-5645888 and plan number 333. The Pentegra Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code.

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The Pentegra Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra Plan contributions made by a contributing employer may be used to provide benefits to participants of other participating employers. There is no separate valuation of the Pentegra Plan benefits or segregation of the Pentegra Plan assets specifically for a company, because the Pentegra Plan is a multi-employer plan and separate actuarial valuations are not made with respect to each employer. The funded status of the Pentegra Plan, or the market value of plan assets divided by funding target, as of July 1, 2012 and 2011 was 101.2% and 84.4%, respectively.

Old National has given notice to withdraw from the plan and has recorded an estimated $13.4 million termination liability in Accrued Expenses and Other Liabilities. As of December 31, 2012, this purchase accounting entry increased goodwill by $8.2 million after tax.

NOTE 15 STOCK-BASED COMPENSATION

At March 31, 2013, Old National had 5.1 million shares remaining available for issuance under the Company s Amended and Restated 2008 Incentive Compensation Plan. The granting of awards to key employees is typically in the form of restricted stock awards or units.

Restricted Stock Awards

The Company granted 75 thousand time-based restricted stock awards to certain key officers during the first quarter of 2013, with shares vesting at the end of a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of March 31, 2013, unrecognized compensation expense was estimated to be $1.9 million for unvested restricted share awards.

Old National recorded expense of $0.2 million, net of tax, during the first three months of 2013, compared to income of $48 thousand during the first three months of 2012 related to the vesting of restricted share awards. Included in the first three months of 2012 is the reversal of $0.4 million of expense associated with certain performance-based restricted stock grants.

In connection with the acquisition of Indiana Community Bancorp on September 15, 2012, 15 thousand unvested Indiana Community Bancorp restricted stock awards were converted to 29 thousand unvested Old National restricted stock awards. These restricted stock awards vested December 31, 2012 upon the retirement of the participant with the remaining expense of $23 thousand accelerated into the fourth quarter of 2012.

Restricted Stock Units

The Company granted 295 thousand shares of performance based restricted stock units to certain key officers during the first quarter of 2013, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets. For certain awards, the level of performance could increase or decrease the percentage of shares earned. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants.

Old National recorded $0.4 million of stock based compensation expense, net of tax, during the first three months of 2013. Old National recorded $0.3 million of stock based compensation expense, net of tax, during the first three months of 2012. Included in the first three months of 2012 is the reversal of $20 thousand of expense associated with certain performance-based restricted stock grants.

Stock Options

Old National has not granted stock options since 2009. However, in connection with the acquisition of Indiana Community Bancorp on September 15, 2012, 0.2 million options for shares of Indiana Community Bancorp stock were converted to 0.3 million options for shares of Old National Bancorp stock. Old National recorded no incremental expense associated with the conversion of these options.

Old National did not record any stock based compensation expense related to stock options during the first three months of 2013. Old National recorded $6 thousand of stock based compensation expense, net of tax, during the first three months of 2012.

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NOTE 16 INCOME TAXES

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

	Three Months Ended March 31,	
(dollars in thousands)	2013	2012
Provision at statutory rate of 35%	**$ 12,018**	$ 10,522
Tax-exempt income	**(2,897)**	(2,510)
State income taxes	**1,216**	894
Interim period effective rate adjustment	**135**	17
Other, net	**(80)**	(583)
Income tax expense	**$ 10,392**	$ 8,340
Effective tax rate	**30.3%**	27.7%

In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at March 31, 2013 and 2012 based on the current estimate of the effective annual rate.

For the three months ended March 31, 2013, the effective tax rate was higher than the three months ended March 31, 2012. The higher tax rate in the first three months of 2013 is the result of an increase in projected pre-tax book income while tax-exempt income remained relatively stable.

No valuation allowance was recorded at March 31, 2013 and 2012 because, based on our current expectations, Old National believes that it will generate sufficient income in the future years to realize deferred tax assets.

Unrecognized Tax Benefits

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

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

(dollars in thousands)	2013	2012
Balance at January 1	**$ 3,953**	$ 4,145
Additions (reductions) based on tax positions related to the current year		
Balance at March 31	**$ 3,953**	$ 4,145

Approximately $0.16 million of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods.

NOTE 17 DERIVATIVE FINANCIAL INSTRUMENTS

As part of the Company s overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was $41.0 million at both March 31, 2013 and December 31, 2012, respectively. The March 31, 2013 and December 31, 2012 balances consist of $41.0 million notional amount of receive-fixed interest rate swaps on certain of its FHLB advances. These hedges were entered into to manage both interest rate risk and asset sensitivity on the balance sheet. These derivative instruments are recognized on the balance sheet at their fair value.

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In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At March 31, 2013, the notional amount of the interest rate lock commitments and forward commitments were $26.2 million and $35.5 million, respectively. At December 31, 2012, the notional amount of the interest rate lock commitments and forward commitments were $23.4 million and $32.0 million, respectively. It is the Company s practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitment to fund the loans. All derivative instruments are recognized on the balance sheet at their fair value.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $432.0 million and $432.0 million, respectively, at March 31, 2013. At December 31, 2012, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were $456.1 million and $456.1 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps, foreign exchange forward contracts and commodity swaps and options. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

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

	Asset Derivatives			
	March 31, 2013		December 31, 2012	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate contracts	Other assets	**$ 5,833**	Other assets	$ 6,458
Total derivatives designated as hedging instruments		**$ 5,833**		$ 6,458
Derivatives not designated as hedging instruments				
Interest rate contracts	Other assets	**$ 25,635**	Other assets	$ 29,475
Mortgage contracts				