OLD NATIONAL BANCORP /IN/
Form 10-K
February 27, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
Annual Report Pursuant to Section 13 or 15(d)
Of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2008
Commission File Number 1-15817
OLD NATIONAL BANCORP
(Exact name of the Registrant as specified in its charter)

INDIANA	**35-1539838**
(State or other jurisdiction of 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)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, No Par Value **Preferred Stock Purchase Rights**	**New York Stock Exchange**
8% Trust Preferred Securities of ONB Capital Trust II (and Registrant s guaranty with respect thereto)	**New York Stock Exchange**

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

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

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

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

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller
reporting company)

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

The aggregate market value of the Registrant s voting common stock held by non-affiliates on June 30, 2008, was $906,473,507 (based on the closing price on that date of $14.26). In calculating the market value of securities held by non-affiliates of the Registrant, the Registrant has treated as securities held by affiliates as of June 30, 2008, voting stock owned of record by its directors and principal executive officers, and voting stock held by the Registrant s trust department in a fiduciary capacity for benefit of its directors and principal executive officers. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares outstanding of the Registrant s common stock, as of January 30, 2009, was 66,321,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 12, 2009, are incorporated by reference into Part III of this Form 10-K.

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OLD NATIONAL BANCORP
2008 ANNUAL REPORT ON FORM 10-K

FORWARD-LOOKING STATEMENTS

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

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

- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- economic conditions generally and in the financial services industry;
- increased competition in the financial services industry either nationally or regionally, resulting in, among other things, credit quality deterioration;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- governmental legislation and regulation, including changes in accounting regulation or standards;
- our ability to execute our business plan;
- a weakening of the economy which could materially impact credit quality trends and the ability to generate loans;
- changes in the securities markets; and
- changes in fiscal, monetary and tax policies.

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

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PART I

ITEM 1. BUSINESS

GENERAL

Old National Bancorp is a financial holding company incorporated in the State of Indiana and maintains its principal executive office in Evansville, Indiana. We, through our wholly owned banking subsidiary, provide a wide range of services, including commercial and consumer loan and depository services, investment and brokerage services, lease financing and other traditional banking services. Through our non-bank affiliates, we provide services to supplement the banking business including fiduciary and wealth management services, insurance and other financial services. As of December 31, 2008, we employed 2,507 full-time equivalent associates.

COMPANY PROFILE

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

OPERATING SEGMENTS

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

Community Banking Segment

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

As of December 31, 2008, Old National Bank operated 117 banking financial centers located primarily in Indiana, Illinois, and Kentucky. The community banking segment primarily consists of lending and depository activities along with merchant cash management, internet banking and other services relating to the general banking business. In addition, the community banking segment includes Indiana Old National Insurance Company (IONIC), which reinsures credit life insurance. IONIC also provides property and casualty insurance for Old National and reinsures most of the coverage with non-affiliated carriers.

Lending Activities

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

Depository Activities

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

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Investment and Brokerage Services

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

Treasury Segment

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

Other

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

Wealth Management

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

Insurance Agency Services

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

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

MARKET AREA

We own the largest Indiana-based bank and one of the largest independent insurance agencies headquartered in Indiana. Operating from a home base in Evansville, Indiana, we have continued to grow our footprint in Indiana and Kentucky with continued expansion in the attractive Louisville, Indianapolis and Lafayette markets. In February 2007, we expanded into Northern Indiana by acquiring St. Joseph Capital Corporation, which had banking offices in Mishawaka and Elkhart, Indiana.

The following table reflects the market locations where we have a significant share of the deposit market.

Old National Deposit Market Share and Number of Branch Locations
Deposits as of June 30, 2008

Market Location	Number of Branches	Deposit Market Share Rank
Evansville, Indiana	14	1st
Greenville, Kentucky	2	1st
Carbondale, Illinois	2	2nd
Danville, Illinois	2	2nd
Jasper, Indiana	4	2nd
Terre Haute, Indiana	4	2nd
Vincennes, Indiana	3	2nd
Muncie, Indiana	5	3rd
Mishawaka, Indiana	1	3rd
Bloomington, Indiana	4	3rd

Source: FDIC

ACQUISITION AND DIVESTITURE STRATEGY

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

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

On November 24, 2008, we entered into a purchase and assumption agreement to acquire the Indiana retail branch banking network of Citizens Financial Group, which consists of 65 branches. Pursuant to the terms of the agreement, Old National has agreed to assume certain deposit liabilities with a balance at September 30, 2008 of approximately $397.4 million and to acquire a portfolio of loans with approximately $15.9 million outstanding as of September 30, 2008. Old National will also acquire cash, real property, furniture and other fixed assets associated with the branches. The branches are located primarily in the Indianapolis area, with additional locations in the Lafayette, Fort Wayne, Anderson and Bloomington markets. Under the terms of the agreement, Old National will pay Citizens Financial Group approximately $15.9 million in cash. The acquisition is expected to close in the first quarter of 2009.

COMPETITION

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

SUPERVISION AND REGULATION

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

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

On July 30, 2002, the Senate and the House of Representatives of the United States (Congress) enacted the Sarbanes-Oxley Act of 2002, a law that addresses, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely disclosures of corporate information. In response, the New York Stock Exchange also adopted new corporate governance rules that are intended to allow shareholders to more easily and efficiently monitor the performance of companies and directors.

Effective August 29, 2002, as directed by Section 302(a) of the Sarbanes-Oxley Act, Old National s principal executive officer and principal financial officer are required to certify that Old National s quarterly and annual reports do not contain any untrue statements of a material fact. The rules also require that these officers certify that they are responsible for establishing, maintaining and regularly evaluating the effectiveness of Old National s internal controls; they have made certain disclosures to auditors and the Audit Committee of the Board of Directors about internal controls; and they have included information in Old National s quarterly and annual reports about their evaluation and whether there have been significant changes in Old National s internal controls or in other factors that could significantly affect internal controls subject to the evaluation. Old National filed the Section 302(a) certifications with the SEC and the Listed Company Manual Section 303A.12(a) CEO certification with the New York Stock Exchange for the prior year. Old National s current year s Sarbanes-Oxley Section 302 certification is filed as an exhibit to this Form 10-K.

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

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

Bank holding companies are required to comply with the Federal Reserve s risk-based capital guidelines. The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) have adopted risk-based capital ratio guidelines to which depository institutions under their respective supervision are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Old National s banking affiliate, Old National Bank, met all risk-based capital requirements of the FDIC and OCC as of December 31, 2008. For Old National s regulatory capital ratios and regulatory requirements as of December 31, 2008, see Note 21 to the consolidated financial statements.

Old National Bank is subject to the provisions of the National Bank Act, is supervised, regulated and examined by the OCC, and is subject to the rules and regulations of the OCC, Federal Reserve and the FDIC.

A substantial portion of Old National s cash revenue is derived from dividends paid to it by Old National Bank. These dividends are subject to various legal and regulatory restrictions as summarized in Note 21 to the consolidated financial statements.

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

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

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

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

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

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

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

EESA also increased FDIC deposit insurance on most accounts from $100,000 to $250,000. This increase is in place until the end of 2009 and is not covered by deposit insurance premiums paid by the banking industry.

Following a systemic risk determination, the FDIC established a Temporary Liquidity Guarantee Program (TLGP) on October 14, 2008. The TLGP includes the Transaction Account Guarantee Program (TAGP), which provides unlimited deposit insurance coverage through December 31, 2009 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. Institutions participating in the TAGP pay a 10 basis points fee (annualized) on the balance of each covered account in excess of $250,000, while the extra deposit insurance is in place. The TLGP also includes the Debt Guarantee Program (DGP), under which the FDIC guarantees certain senior unsecured debt of FDIC-insured institutions and their holding companies. The unsecured debt must be issued on or after October 14, 2008 and not later than October 31, 2009, and the guarantee is effective through the earlier of the maturity date or June 30, 2012. The DGP coverage limit is generally 125% of the eligible entity s eligible debt outstanding on September 30, 2008 and scheduled to mature on or before June 30, 2009 or, for certain insured institutions, 2% of their liabilities as of September 30, 2008. Depending on the term of the debt maturity, the nonrefundable DGP fee ranges from 50 to 100 basis points (annualized) for covered debt outstanding until the earlier of maturity or June 30, 2012. The TAGP and DGP are in effect for all eligible entities, unless the entity opted out on or before December 5, 2008. Old National s bank subsidiary elected to participate in the TAGP and both the bank subsidiary and the holding company are eligible to participate in DGP.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law by President Obama. ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including Old National, until the institution has repaid the Treasury, which is now permitted under ARRA without penalty and without the need to raise new capital, subject to the Treasury s consultation with the recipient s appropriate regulatory agency.

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

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

AVAILABLE INFORMATION

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

ITEM 1A. RISK FACTORS

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

Risks Related to Old National s Business

The current banking crisis, including the Enactment of EESA and ARRA, may significantly affect our financial condition, results of operations, liquidity or stock price.

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers seemingly without regard to those issuers   underlying financial strength.

EESA, which established TARP, was signed into law in October 2008. As part of TARP, the Treasury established the CPP to provide up to $700 billion of funding to eligible financial institutions through the purchase of capital stock and other financial instruments for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Then, on February 17, 2009, President Obama signed ARRA, as a sweeping economic recovery package intended to stimulate the economy and provide for broad infrastructure, energy, health, and education needs. There can be no assurance as to the actual impact that EESA or its programs, including the CPP, and ARRA or its programs, will have on the national economy or financial markets. The failure of these significant legislative measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common shares.

There have been numerous actions undertaken in connection with or following EESA and ARRA by the Federal Reserve Board, Congress, the Treasury, the FDIC, the SEC and others in efforts to address the current liquidity and credit crisis in the financial industry that followed the sub-prime mortgage market meltdown which began in 2007. These measures include homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. The purpose of these legislative and regulatory actions is to help stabilize the U.S. banking system. EESA, ARRA and the other regulatory initiatives described above may not have their desired effects. If the volatility in the markets continues and economic conditions fail to improve or worsen, our business, financial condition and results of operations could be materially and adversely affected.

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

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

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

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

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

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

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

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

Credit quality issues may broaden in these sectors during 2009 depending on the severity and duration of the declining economy and current credit cycle.

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

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

We face risks with respect to future expansion.

We may acquire other financial institutions or parts of those institutions in the future, and we may engage in de novo branch expansion. We may also consider and enter into new lines of business or offer new products or services. Acquisitions and mergers involve a number of expenses and risks, including:

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

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

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

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

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

Old National believes that Old National s success depends largely on the efforts and abilities of Old National s senior management. Their experience and industry contacts significantly benefit Old National. The competition for qualified personnel in the financial services industry is intense, and the loss of any of Old National s key personnel or an inability to continue to attract, retain and motivate key personnel could adversely affect Old National s business. Old National s ability to continue to attract, retain and motivate key personnel could be impacted by the Company s participation in CPP. Compensation paid to our executive officers is restricted and the adoption of ARRA on February 17, 2009 imposed certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including Old National. The executive compensation standards are more stringent than those currently in effect under the CPP or those previously proposed by the Treasury. The new standards include (but are not limited to) (i) prohibitions on bonuses, retention awards and other incentive compensation, other than restricted stock grants which do not fully vest during the ARP period up to one-third of an employee s total annual compensation, (ii) prohibitions on golden parachute payments for departure from a company, (iii) an expanded clawback of bonuses, retention awards, and incentive compensation if payment is based on materially inaccurate statements of earnings, revenues, gains or other criteria, (iv) prohibitions on compensation plans that encourage manipulation of reported earnings, (v) retroactive review of bonuses, retention awards and other compensation previously provided by TARP recipients if found by the Treasury to be inconsistent with the purposes of TARP or otherwise contrary to public interest, (vi) required establishment of a company-wide policy regarding excessive or luxury expenditures, and (vii) inclusion in a participant s proxy statements for annual shareholder meetings of a nonbinding Say on Pay shareholder vote on the compensation of executives.

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

Old National relies upon a variety of computing platforms and networks over the internet for the purposes of data processing, communication and information exchange. Despite the safeguards instituted by Old National, such systems are susceptible to a breach of security. In addition, Old National relies on the services of a variety of third-party vendors to meet Old National s data processing and communication needs. If confidential information is compromised, financial losses, costs and/or other damages could occur. Such costs and/or losses could materially affect Old National s earnings.

Fiduciary Activity Risk Factor

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

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

Risks Related to the Banking Industry

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

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

Illinois could have an adverse impact on Old National s earnings.

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Current levels of market volatility are unprecedented

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers seemingly without regard to those issuers underlying financial strength. The current market volatility could contribute to a further decline in the market value of certain security investments and other assets of Old National and if current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on results of operations, capital or financial position.

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

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

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

Old National operates in a highly regulated environment and is subject to extensive regulation, supervision and examination by the Office of Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (the Federal Reserve) and the State of Indiana. In addition, the U.S. Treasury has certain supervisory and oversight duties and responsibilities under EESA and the CPP and, pursuant to the terms of Old National s Securities Purchase Agreement, the U.S. Treasury is empowered to unilaterally amend any provision of the Securities Purchase Agreement with Old National to the extent required to comply with any changes in applicable federal statutes. See Business - Supervision and Regulation herein. Applicable laws and regulations may change, and such changes may adversely affect Old National s business. Such regulation and supervision of the activities in which an institution may engage is primarily intended for the protection of the depositors and federal deposit insurance funds. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including but not limited to the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution s allowance for loan losses. Any change in such regulation and oversight, whether in the form of restrictions on activities, regulatory policy, regulations, or legislation, including but not limited to changes in the regulations governing institutions, could have a material impact on Old National and its operations.

Changes in technology could be costly.

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

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

We are subject to fraud and compliance risk in connection with the origination of loans. Fraud risk includes the intentional misstatement of information in property appraisals or other underwriting documentation provided to us by third parties. Compliance risk is the risk that loans are not originated in compliance with applicable laws and regulations and our standards. There can be no assurance that we can prevent or detect acts of fraud or violation of law or our compliance standards by the third parties that we deal with. Repeated incidences of fraud or compliance failures adversely impact the performance of our loan portfolio.

Risks Related to Old National s Stock

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

Old National has traditionally paid a quarterly dividend to common stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on Old National s earnings, capital requirements, financial condition and other factors considered relevant by Old National s Board of Directors. Additionally, the payment of dividends to the preferred shareholders has priority over the payment of cash dividends to the common stockholders and due to our participation in the CPP, we may not increase our dividend for three years from the date of the Agreement without the consent of the U.S. Treasury, unless the preferred shares sold to the U.S. Treasury have been redeemed in whole or transferred to a third party which is not an affiliate of Old National.

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

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

- announcements of developments related to Old National s business;
- fluctuations in Old National s results of operations;
- sales or purchases of substantial amounts of Old National s securities in the marketplace;
- general conditions in Old National s banking niche or the worldwide economy;
- a shortfall or excess in revenues or earnings compared to securities analysts expectations;
- changes in analysts recommendations or projections; and
- Old National s announcement of new acquisitions or other projects.

Old National s charter documents and federal regulations may inhibit a takeover, prevent a transaction that may favor or otherwise limit Old National s growth opportunities, which could cause the market price of Old National s common stock to decline.

Certain provisions of Old National s charter documents and federal regulations could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of Old National. In addition, Old National must obtain approval from regulatory authorities before acquiring control of any other company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The executive offices of Old National are located at 1 Main Street, Evansville, Indiana. This building, which houses Old National s general corporate functions, is leased from an unaffiliated third party. The lease term expires December 31, 2031, and provides for the tenant s option to extend the term of the lease for four five-year periods. In addition, during 2007 and 2008, eighty-one financial centers were sold in a series of sale leaseback transactions to unaffiliated third parties. These properties are leased back from the landlord with lease terms ranging from ten to twenty-four years. See Note 19 to the consolidated financial statements.

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As of December 31, 2008, Old National and its affiliates operated a total of 117 banking centers, loan production or other financial services offices, primarily in the states of Indiana, Illinois and Kentucky. Of these facilities, 6 were owned and 111 were leased from unaffiliated third parties.

ITEM 3. LEGAL PROCEEDINGS

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

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

In November 2002, several beneficiaries of the Charles Jones Trust and/or the Eula Jones Trust filed a complaint against Old National Bancorp and Old National Trust Company in the United States District Court for the Western District of Kentucky relating to the administration of the trusts in 1997. The complaint, as amended, alleged that Old National (through a predecessor), as trustee, mismanaged termination of a lease between the trusts and a tenant mining company. The complaint seeks, among other relief, unspecified damages, (costs and expenses, including attorneys fees, and such other relief as the court might find just and proper.) In September of 2008, the Court granted partial summary judgment to the plaintiffs on a (non-dispositive) lease interpretation issue. Old National has filed its own motion for summary judgment, but that motion has not yet been ruled upon by the Court. Old National believes that it has meritorious defenses to each of the claims in the lawsuit and intends to continue to vigorously defend the lawsuit. There can be no assurance, however, that Old National will be successful, and an adverse resolution of the lawsuit could have a material adverse effect on its consolidated financial position and results of operations in the period in which the lawsuit is resolved. Old National is not presently able to reasonably estimate potential losses, if any, related to the lawsuit and has not recorded a liability in its accompanying Consolidated Balance Sheets.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of Old National during the fourth quarter of 2008.

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PART II

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

Old National s common stock is traded on the New York Stock Exchange (NYSE) under the ticker symbol ONB. The following table lists the high and low closing sales prices as reported by the NYSE, share volume and dividend data for 2008 and 2007:

	Price Per Share		Share	Dividend
	High	**Low**	**Volume**	**Declared**
2008				
First Quarter	**$ 19.26**	**$ 13.26**	**60,502,700**	**$**
Second Quarter	**19.13**	**14.26**	**50,756,900**	**0.23**
Third Quarter	**25.00**	**12.71**	**74,613,700**	**0.23**
Fourth Quarter	**20.80**	**14.14**	**46,792,400**	**0.23**
2007				
First Quarter	$ 19.42	$ 17.39	15,749,200	$ 0.22
Second Quarter	18.68	16.61	22,403,800	0.22
Third Quarter	17.06	14.03	28,821,500	0.22
Fourth Quarter	17.00	14.09	32,876,900	0.45

There were 25,372 shareholders of record as of December 31, 2008. Old National declared cash dividends of $0.69 per share during the year ended December 31, 2008. Old National declared cash dividends of $0.88 per share for 2007 and a cash dividend of $0.23 for the first quarter of 2008 during the year ended December 31, 2007. Old National s ability to pay cash dividends depends primarily on cash dividends received from Old National Bank. Dividend payments from Old National Bank are subject to various regulatory restrictions. See Note 21 to the consolidated financial statements for additional information.

The following table summarizes the purchases of equity securities made by Old National during the fourth quarter of 2008:

Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs**
10/01/08 10/31/08		$		4,297,854
11/01/08 11/30/08				4,297,854
12/01/08 12/31/08	1,019	18.58	1,019	4,296,835
Total	1,019	$ 18.58	1,019	4,296,835

In December 2005, the Board of Directors approved the repurchase of up to 6.0 million shares of stock over a three-year period beginning January 1, 2006 and ending December 31, 2008. The Company repurchased a limited number of shares associated with employee share-based incentive programs but did not repurchase any shares on the open market during 2008. There were 4,296,835 shares available for repurchase at December 31, 2008 when the program ended.

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EQUITY COMPENSATION PLAN INFORMATION

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

2008 EQUITY COMPENSATION PLAN

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plan (c)
Equity compensation plans approved by security holders	6,507,104	$ 20.55	1,553,512
Equity compensation plans not approved by security holders			
Total	6,507,104	$ 20.55	1,553,512

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

The comparison of shareholder returns (change in December year end stock price plus reinvested dividends) for each of the periods assumes that $100 was invested on December 31, 2003, in common stock of each of the Company, the S&P Small Cap 600 Index, the NYSE Financial Index and the SNL Bank and Thrift Index with investment weighted on the basis of market capitalization.

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ITEM 6. SELECTED FINANCIAL DATA

ars in thousands, except per share data)	2008	2007	2006	2005	2004	2003	Five-Y Grow Rat
lts of Operations							
nterest income (1)	**$ 262,651**	$ 236,351	$ 232,243	$ 240,670	$ 255,652	$ 280,414	(1
nd service charge income	**154,231**	151,734	147,902	149,540	149,162	140,512	1
ecurities gains (losses)	**7,562**	(3,023)	1,471	901	2,936	23,556	(20
on branch divestitures			3,036	14,597			N/
on sale leasebacks	**6,320**	6,261					N/
(loss) on derivatives	**(1,144)**	166	1,511	(3,436)	10,790	8,874	N/
revenue (1)	**429,620**	391,489	386,163	402,272	418,540	453,356	(1
ision for loan losses	**51,464**	4,118	7,000	23,100	22,400	85,000	(9
ies & other operating expenses	**297,229**	277,998	264,690	263,811	309,403	275,801	1
me taxes (1)	**18,449**	34,483	35,100	36,772	26,424	29,504	(9
me from continuing operations	**62,478**	74,890	79,373	78,589	60,313	63,051	(0
ontinued operations (after-tax)				(14,825)	2,751	2,471	N/
ncome	**62,478**	74,890	79,373	63,764	63,064	65,522	(0
erred stock dividends and discount tion	**298**						N/
ncome available to common holders	**$ 62,180**	$ 74,890	$ 79,373	$ 63,764	$ 63,064	$ 65,522	(1
Common Share Data (2)							
me from continuing operations (diluted)	**$ 0.95**	$ 1.14	$ 1.20	$ 1.15	$ 0.86	$ 0.90	1
ncome (diluted)	**0.95**	1.14	1.20	0.93	0.90	0.93	0
dividends (5)	**0.69**	1.11	0.84	0.76	0.72	0.69	0
value at year-end	**9.56**	9.86	9.66	9.61	10.16	10.31	(1
price at year-end	**18.16**	14.96	18.92	21.64	24.63	20.72	(2
nce Sheet Data (at December 31)							
assets	**$ 7,873,890**	$ 7,846,126	$ 8,149,515	$ 8,492,022	$ 8,898,304	$ 9,363,232	(3
s (3)	**4,777,514**	4,699,356	4,716,637	4,937,631	4,987,326	5,586,455	(3
osits	**5,422,287**	5,663,383	6,321,494	6,465,636	6,418,709	6,494,839	(3
r borrowings	**834,867**	656,722	747,545	954,925	1,306,953	1,613,942	(12
eholders equity	**730,865**	652,881	642,369	649,898	704,092	720,880	0
ormance Ratios							
rn on average assets	**0.82%**	0.94%	0.97%	0.74%	0.69%	0.69%	
rn on average common shareholders y	**9.49**	11.67	12.43	9.31	8.83	8.72	
mon dividend payout (4) (5)	**73.51**	97.38	70.02	81.06	79.72	73.82	
age equity to average assets	**8.67**	8.04	7.81	7.94	7.83	7.86	
nterest margin (1)	**3.82**	3.28	3.15	3.09	3.08	3.18	
	69.18	71.01	68.54	65.58	73.92	60.84	

iency ratio (noninterest nse/revenue) (1)						
charge-offs to average loans (3)	**0.87**	0.44	0.37	0.60	0.61	1.21
wance for loan losses to ending loans (3)	**1.41**	1.20	1.44	1.61	1.73	1.71
r Data						
ber of full-time equivalent employees	**2,507**	2,494	2,568			
ber of shareholders	**25,372**	30,086	25,672			
ber of shares traded (in thousands) (2)	**232,666**	99,851	46,829			

(1) Includes the effect of taxable equivalent adjustments of $19.3 million for 2008, $17.2 million for 2007, $ 19.5 million for 2006, $21.5 million for 2005, $23.9 million for 2004, and $25.1 million for 2003, using the federal statutory tax rate in effect of 35% for all periods.

(2) All share and per share data have been adjusted for stock dividends. Diluted data assumes the exercise of stock options and the vesting of restricted stock.

(3) Includes residential loans held for sale.

(4) Common stock dividends divided by income available to common stockholders.

(5) 2007 includes cash dividends of $.88 paid in 2007 and cash dividends of $.23 declared for the first quarter of 2008.

N/M = Not meaningful

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is an analysis of our results of operations for the fiscal years ended December 31, 2008, 2007 and 2006, and financial condition as of December 31, 2008 and 2007. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business. Readers are cautioned that, by their nature, forward-looking statements are based on estimates and assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from our expectations that are expressed or implied by any forward-looking statement. The discussion in Item 1A, Risk Factors, lists some of the factors that could cause our actual results to vary materially from those expressed or implied by any forward-looking statements, and such discussion is incorporated into this discussion by reference.

GENERAL OVERVIEW

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

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

CORPORATE DEVELOPMENTS IN FISCAL 2008

2008 full year results include an expanded net interest margin and growth in two key areas. The Company expanded the net interest margin 54 basis points from December 2007 resulting in a $24.1 million increase in net interest income year over year. The margin benefited from improved pricing discipline, declining federal funds rates, and the reduction of higher cost deposits. In addition, commercial loans increased $203.2 million or 12% during the year. This growth, however, was partially offset by our conservative stance on commercial real estate loans which declined $115.5 million, or 9.1% during the year. In addition, noninterest-bearing demand deposits, our most desirable deposit category, increased $33.1 million, or 3.9% from December 2007.

Credit remained challenging in 2008. We saw a significant migration of loans into the Problem and Special Mention categories during the latter part of the year resulting in higher provision costs during the fourth quarter. At December 31, 2008, our reserve for loan losses was $67.1 million, compared to $56.5 million at December 31, 2007. The allowance for loan losses equaled 105% of nonperforming loans at December 31, 2008 compared to 138% at December 31, 2007. Net charge-offs were 0.87% of average loans in 2008 compared to 0.44% in 2007. Included in total net charge-offs of $40.8 million in 2008 were $18.8 million of losses associated with the misconduct of a former loan officer in the Indianapolis market.

Despite the deterioration in economic conditions during the fourth quarter, our capital position remained strong and was further enhanced by our participation in the U.S. Treasury Department Capital Purchase Program for healthy financial institutions. Under the program, we sold preferred, non-voting shares and warrants valued at $100 million to the U.S. Treasury Department. At December 31, 2008, we reported a total risk-based capital ratio of 15.44%, tier 1 risk-based capital ratio of 13.11% and a leverage ratio of 9.75%. All three capital ratios are well above the FDIC guidelines for well capitalized institutions.

BUSINESS OUTLOOK

We believe the economy is in a very deep and long lasting recession. During the fourth quarter of 2008, the economic slowdown moved to sectors not previously impacted including the consumer, commercial, industrial and other areas. We are seeing credit issues broaden to these sectors and believe that any recovery will be several quarters away.

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The Company will continue to monitor asset quality closely in 2009 and anticipates lower non-interest income as we restructure our company owned life insurance (COLI) policies to preserve cash surrender value. In addition, to the degree in which the economy continues to decline, probable losses within the loan portfolio could increase, resulting in a higher provision expense in 2009.

The Company will continue to focus on building its presence in higher growth markets, including Indianapolis, Louisville, Lafayette and northern Indiana. As recently announced on November 25, 2008, we entered into an agreement with Citizens Financial Group to acquire 65 locations, primarily in the key market of Indianapolis. We plan to integrate these branches during the first quarter of 2009.

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the years ended December 31, 2008, 2007, and 2006:

(dollars in thousands)	2008	2007	2006
Income Statement Summary:			
Net interest income	**$ 243,325**	$ 219,191	$ 212,717
Provision for loan losses	**51,464**	4,118	7,000
Noninterest income	**166,969**	155,138	153,920
Noninterest expense	**297,229**	277,998	264,690
Other Data:			
Return on average common equity	**9.49%**	11.67%	12.43%
Efficiency ratio	**69.18%**	71.01%	68.54%
Tier 1 leverage ratio	**9.75%**	7.72%	8.01%
Net charge-offs to average loans	**0.87%**	0.44%	0.37%

Comparison of Fiscal Years 2008 and 2007

Net Interest Income

Net interest income was the most significant component of our earnings, comprising over 61% of 2008 revenues. Net interest income and net interest margin in the following discussion are presented on a fully taxable equivalent basis, which adjusts tax-exempt interest income to an amount that would be comparable to interest subject to income taxes. Net income is unaffected by these taxable equivalent adjustments as an offsetting increase of the same amount is made in the income tax section. Net interest income included taxable equivalent adjustments of $19.3 million for 2008 and $17.2 million for 2007.

Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources and interest rate fluctuations. Other factors include prepayment risk on mortgage and investment-related assets and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from client deposits generally cost less than wholesale funding sources. Factors, such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

Taxable equivalent net interest income was $262.7 million in 2008, a 11.1% increase from the $236.4 million reported in 2007. The net interest margin was 3.82% for 2008, a 54 basis point increase compared to the 3.28% reported in 2007. The increase in both net interest income and net interest margin is primarily due to the decrease in the cost of funding being greater than the decrease in earning asset yield, combined with a change in the mix of interest earning assets and interest-bearing liabilities. Although average earning assets declined by $338.3 million and the yield on average earning assets decreased 64 basis points from 6.63% to 5.99%, the decrease was more than offset by the 128 basis point decrease in the cost of interest bearing liabilities and the $457.9 million decline in average interest-bearing liabilities. The decrease in average earning assets consisted of a $131.3 million decrease in lower yielding investment securities, a $111.7 million decrease in loans and a $95.3 million decrease in federal funds sold and money market investments. Contributing to the improved margin was the $457.9 million or 7.2% decrease in average interest-bearing liabilities, consisting of a $807.3 million reduction in interest-bearing deposits partially offset by a $349.3 million increase in borrowed funds. The cost of interest-bearing liabilities decreased 128 basis points from 3.80% to 2.52%. Noninterest-bearing deposits increased by $6.5 million. Included in net interest income for 2007 is a $2.6 million recovery of interest on two commercial real estate loans, which increased net interest margin by 4 basis points.

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Fluctuation in interest rates has a notable effect on the volume, mix and yield of average earning assets. The target federal funds rate, the rate that dictates national prime rate and determines many other short-term loan and liability rates, started to decline in September 2007 and was 4.25% at December 31, 2007. The decline continued during 2008 as the economy deteriorated and reached an effective rate of 0% at December 31, 2008.

Significantly affecting average earning assets during 2007 and 2008 was the reduction in the size of the investment portfolio combined with the reduction in the size of the loan portfolio. During 2008, approximately $405.2 million of investment securities were called by the issuers and $278.6 million of investment securities were sold. The cash proceeds from these sales were used to purchase similarly yielding securities and to reduce brokered certificates of deposit. We sold $148.2 million of investment securities during the first quarter of 2007 as we restructured our balance sheet in connection with our acquisition of St. Joseph. In addition, commercial and commercial real estate loans continue to be affected by weak loan demand in our markets, more stringent loan underwriting standards and our desire to lower future potential credit risk by being cautious towards the real estate market. However, the $169.6 million decline in average commercial real estate loans during 2008 was partially offset by a $99.8 million increase in average commercial loans. We sold $20.9 million of nonaccrual and substandard commercial and commercial real estate loans during 2007. In 2008, we sold $2.2 million of commercial loans. Year-over-year, commercial and consumer loans, which have an average yield higher than the investment portfolio, have increased as a percent of interest earning assets.

Affecting margin were decreases in borrowed funding due to the retirement of $89 million of Federal Home Loan Bank advances and $74 million of repurchase agreements in the first quarter of 2007. We also retired $23 million of Federal Home Loan Bank advances which were acquired from St. Joseph and a $15 million Federal Home Loan Bank advance acquired from St. Joseph also matured in the first quarter of 2007. In 2007, we called $98 million of high cost brokered certificates of deposit and $48.3 million of retail certificates of deposit. During 2008, $137.6 million of high cost brokered certificates of deposit were called or matured and $100.5 million of retail certificates of deposit were called. A $50 million bank note matured in the first quarter of 2008 and $100 million of medium-term notes matured in the second quarter of 2008. In addition, $51 million of FHLB advances matured in the last half of 2008 and a revolving credit facility with $55 million outstanding was paid off in the fourth quarter of 2008. Year over year, brokered certificates of deposit, which have an average interest rate higher than other types of deposits, have decreased as a percent of interest-bearing liabilities. Borrowed funds have increased as a percent of interest-bearing liabilities, due to our ability to obtain low-cost FHLB advances during 2008.

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

THREE-YEAR AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS

	2008			2007			2006		
equivalent basis, dollars in thousands)	Average Balance	Interest & Fees	Yield/ Rate	Average Balance	Interest & Fees	Yield/ Rate	Average Balance	Interest & Fees	Yi Ra
ing Assets									
ey market investments and federal s sold	**$ 21,955**	**$ 746**	**3.40%**	$ 117,202	$ 6,266	5.35%	$ 87,594	$ 4,557	5
tment securities: (5)									
Treasury & Government-sponsored cies (1)	**1,569,779**	**78,185**	**4.98**	1,749,656	84,383	4.82	1,799,289	81,894	4
s and political subdivisions (3)	**329,386**	**22,745**	**6.91**	263,698	18,656	7.07	408,469	28,306	6
r securities	**251,444**	**13,927**	**5.54**	268,564	14,091	5.25	254,644	13,101	5
investment securities	**2,150,609**	**114,857**	**5.34**	2,281,918	117,130	5.13	2,462,402	123,301	5
s: (2)									
mercial (3)	**1,779,445**	**104,617**	**5.88**	1,679,626	125,512	7.47	1,592,286	116,571	7
mercial real estate	**1,205,087**	**74,960**	**6.22**	1,374,703	103,939	7.56	1,466,155	106,569	7
dential real estate (4)	**528,049**	**30,989**	**5.87**	556,038	32,568	5.86	527,876	29,219	5
umer, net of unearned income	**1,190,565**	**85,679**	**7.20**	1,204,503	93,113	7.73	1,236,823	91,022	7
loans (4)	**4,703,146**	**296,245**	**6.30**	4,814,870	355,132	7.38	4,823,140	343,381	7
earning assets	**6,875,710**	**$ 411,848**	**5.99%**	7,213,990	$ 478,528	6.63%	7,373,136	$ 471,239	6
Allowance for loan losses	**(61,981)**			(68,179)			(76,455)		
Earning Assets									
and due from banks	**155,868**			172,963			165,670		
r assets	**648,225**			666,211			711,072		
assets	**$ 7,617,822**			$ 7,984,985			$ 8,173,423		
rest-Bearing Liabilities									
/ deposits	**$ 1,249,482**	**$ 6,355**	**0.51%**	$ 1,490,413	$ 31,621	2.12%	$ 1,429,757	$ 27,397	1
ngs deposits	**886,351**	**12,919**	**1.46**	622,398	15,141	2.43	441,305	5,655	1
ey market deposits	**487,514**	**5,456**	**1.12**	758,558	23,623	3.11	886,151	29,437	3
deposits	**1,867,103**	**70,723**	**3.79**	2,426,346	112,728	4.65	2,616,339	110,095	4
interest-bearing deposits	**4,490,450**	**95,453**	**2.13**	5,297,715	183,113	3.46	5,373,552	172,584	3
t-term borrowings	**616,935**	**10,902**	**1.77**	461,780	18,193	3.94	402,240	15,995	3
r borrowings	**810,052**	**42,842**	**5.29**	615,878	40,871	6.64	835,583	50,417	6
interest-bearing liabilities	**5,917,437**	**$ 149,197**	**2.52%**	6,375,373	$ 242,177	3.80%	6,611,375	$ 238,996	3
nterest-Bearing Liabilities									
and deposits	**834,981**			828,461			800,682		

r liabilities	**205,235**		139,303		123,007	
eholders equity	**660,169**		641,848		638,359	
liabilities and shareholders equity	**$ 7,617,822**		$ 7,984,985		$ 8,173,423	
est Margin Recap						
est income/average earning assets	**$ 411,848**	**5.99%**	$ 478,528	6.63%	$ 471,239	6
est expense/average earning assets	**149,197**	**2.17**	242,177	3.35	238,996	3
nterest income and margin	**$ 262,651**	**3.82%**	$ 236,351	3.28%	$ 232,243	3

(1) Includes U.S. Government-sponsored entities and agency mortgage-backed securities.

(2) Includes principal balances of nonaccrual loans. Interest income relating to nonaccrual loans is included only if received. Includes loan fees of $4.9 million in 2008, $4.9 million in 2007 and $5.4 million in 2006.

(3) Interest on state and political subdivision investment securities and commercial loans includes the effect of taxable equivalent adjustments of $7.7 million and $11.6 million, respectively, in 2008; $6.3 million and $10.8 million, respectively, in 2007; and $9.6 million and $9.9 million, respectively, in 2006; using the federal statutory tax rate in effect of 35% for all periods.

(4)

Includes residential loans held for sale.

(5) Yield information does not give effect to changes in fair value that are reflected as a component o