OLD NATIONAL BANCORP /IN/
Form 10-Q/A
April 04, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2005

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________
Commission File Number 1-15817

OLD NATIONAL BANCORP
(Exact name of Registrant as specified in its charter)

INDIANA	**35-1539838**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 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, and (2) has been subject to the filing requirements for at least the past 90 days. Yes þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock. The Registrant has one class of common stock (no par value) with 68,648,000 shares outstanding at July 31, 2005.

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EXPLANATORY NOTE

We are filing this Quarterly Report on Form 10-Q/A (the Amended Report) to correct errors related to Old National Bancorp s derivative accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. See Note 2 to the consolidated financial statements for further explanation.

For the reason discussed above, we are filing this Amended Report in order to amend Part 1. Item 1. Financial Statements, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 3. Quantitative and Qualitative Disclosures about Market Risk, Item 4. Controls and Procedures and Part II, Item 6. certifications in Exhibits 31.1, 31.2, 32.1 and 32.2.

In order to preserve the nature and character of the disclosures set forth in the Original Report, except as expressly noted above, this report speaks as of the date of the filing of the Original Report, August 9, 2005, and we have not updated the disclosures in this report to speak as of the later date. All information contained in this Amended Report is subject to updating and supplementing as provided in our reports filed with the SEC subsequent to the date of the Original Report.

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OLD NATIONAL BANCORP
CONSOLIDATED BALANCE SHEET

(dollars and shares in thousands) (unaudited)	June 30, 2005 (restated)	June 30, 2004 (restated)	December 31, 2004 (restated)
Assets			
Cash and due from banks	**$ 216,891**	$ 198,263	$ 204,678
Money market investments	**18,259**	280,811	12,320
Total cash and cash equivalents	**235,150**	479,074	216,998
Investment securities available-for-sale, at fair value			
U.S. Treasury		71,645	66,837
U.S. Government-sponsored agencies	**511,020**	551,317	632,473
Mortgage-backed securities	**1,157,605**	1,169,560	1,267,320
States and political subdivisions	**515,384**	638,955	597,631
Other securities	**217,647**	86,413	221,154
Investment securities available-for-sale	**2,401,656**	2,517,890	2,785,415
Investment securities held-to-maturity, at amortized cost (fair value $184,897, $186,210 and $176,166 respectively)	**187,032**	192,934	177,794
Federal Home Loan Bank stock, at cost	**49,572**	49,515	49,542
Residential loans held for sale	**53,279**	26,846	22,484
Loans:			
Commercial	**1,643,640**	1,618,677	1,550,640
Commercial real estate	**1,599,091**	1,758,748	1,653,122
Residential real estate	**544,589**	534,688	555,423
Consumer credit, net of unearned income	**1,231,170**	1,195,082	1,205,657
Total loans	**5,018,490**	5,107,195	4,964,842
Allowance for loan losses	**(80,645)**	(95,065)	(85,749)
Net loans	**4,937,845**	5,012,130	4,879,093
Premises and equipment, net	**211,356**	201,689	212,787
Goodwill	**113,135**	129,265	129,947
Other intangible assets	**24,335**	40,313	38,868
Mortgage servicing rights	**14,565**	17,571	15,829
Assets held for sale	**60,230**		
Accrued interest receivable and other assets	**360,353**	374,223	369,547
Total assets	**$ 8,648,508**	$ 9,041,450	$ 8,898,304
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 857,051**	$ 784,499	$ 851,218
Interest-bearing:			

NOW	**1,749,073**	1,727,947	1,920,501
Savings	**481,064**	477,238	480,392
Money market	**662,622**	579,490	573,334
Time	**2,574,289**	2,785,303	2,593,264
Total deposits	**6,324,099**	6,354,477	6,418,709
Short-term borrowings	**468,046**	426,679	347,353
Other borrowings	**1,047,316**	1,449,675	1,306,953
Liabilities held for sale	**14,333**		
Accrued expenses and other liabilities	**93,124**	138,227	121,197
Total liabilities	**7,946,918**	8,369,058	8,194,212
Shareholders Equity			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding			
Common stock, $1 stated value, 150,000 shares authorized, 68,950, 66,273 and 69,287 shares issued and outstanding, respectively	**68,950**	66,273	69,287
Capital surplus	**619,350**	574,681	630,461
Retained earnings	**13,780**	57,762	
Accumulated other comprehensive income (loss), net of tax	**(490)**	(26,324)	4,344
Total shareholders equity	**701,590**	672,392	704,092
Total liabilities and shareholders equity	**$ 8,648,508**	$ 9,041,450	$ 8,898,304

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share data) (unaudited)	**2005 (restated)**	**2004 (restated)**	**2005 (restated)**	**2004 (restated)**
Interest Income				
Loans including fees:				
Taxable	**$ 71,645**	$ 72,691	**$ 140,225**	$ 147,073
Nontaxable	**4,308**	4,324	**8,370**	8,691
Investment securities, available-for-sale:				
Taxable	**20,559**	18,994	**42,097**	38,887
Nontaxable	**6,404**	7,341	**13,077**	14,703
Investment securities, held-to-maturity, taxable	**1,837**	1,987	**3,623**	4,084
Money market investments	**253**	64	**382**	72
Total interest income	**105,006**	105,401	**207,774**	213,510
Interest Expense				
Deposits	**33,247**	29,960	**64,096**	62,229
Short-term borrowings	**2,666**	1,063	**4,683**	2,053
Other borrowings	**14,412**	14,379	**29,117**	29,151
Total interest expense	**50,325**	45,402	**97,896**	93,433
Net interest income	**54,681**	59,999	**109,878**	120,077
Provision for loan losses	**6,000**	7,500	**11,100**	15,000
Net interest income after provision for loan losses	**48,681**	52,499	**98,778**	105,077
Noninterest Income				
Wealth management fees	**5,635**	5,275	**10,510**	10,197
Service charges on deposit accounts	**12,065**	12,386	**23,163**	23,151
ATM and debit card fees	**2,541**	2,190	**4,902**	4,155
Mortgage banking revenue	**1,267**	7,139	**2,644**	6,819
Insurance premiums and commissions	**9,094**	8,202	**18,145**	17,409
Investment product fees	**2,316**	3,775	**4,899**	6,960
Bank-owned life insurance	**1,741**	1,782	**3,495**	3,835
Net securities gains	**1,043**	21	**523**	2,006
Gain (loss) on derivatives	**8,149**	(9,243)	**5,277**	46
Other income	**2,391**	1,486	**5,663**	5,204
Total noninterest income	**46,242**	33,013	**79,221**	79,782
Noninterest Expense				
Salaries and employee benefits	**38,733**	48,081	**77,771**	92,306
Occupancy	**5,124**	4,383	**10,155**	8,963

Equipment	**3,882**	3,374	**7,394**	6,815
Marketing	**2,226**	1,967	**4,138**	4,253
Outside processing	**5,066**	5,555	**10,182**	10,486
Communication and transportation	**2,542**	2,647	**5,063**	5,513
Professional fees	**2,035**	16,915	**4,149**	19,926
Loan expense	**1,420**	1,804	**2,319**	3,271
Supplies	**1,071**	913	**1,946**	1,913
Other real estate owned expense	**127**	367	**405**	2,023
Other expense	**1,399**	5,515	**6,180**	9,900
Total noninterest expense	**63,625**	91,521	**129,702**	165,369
Income before income taxes and discontinued operations	**31,298**	(6,009)	**48,297**	19,490
Income tax expense (benefit)	**6,601**	(7,268)	**8,044**	(3,019)
Income from continuing operations	**24,697**	1,259	**40,253**	22,509
Income from discontinued operations, net of tax expense of $368, $689, $301 and $1,299, respectively	**542**	1,068	**(442)**	1,987
Net income	**$ 25,239**	$ 2,327	**$ 39,811**	$ 24,496
Basic net income per share from continuing operations	**$ 0.37**	$ 0.01	**$ 0.59**	$ 0.32
Basic net income per share from discontinued operations		0.02	**(0.01)**	0.03
Basic net income per share	**0.37**	0.03	**0.58**	0.35
Diluted net income per share from continuing operations	**$ 0.37**	$ 0.01	**$ 0.59**	$ 0.32
Diluted net income per share from discontinued operations		0.02	**(0.01)**	0.03
Diluted net income per share	**0.37**	0.03	**0.58**	0.35
Dividends per common share	**$ 0.19**	$ 0.18	**$ 0.38**	$ 0.36

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(dollars and shares in thousands) (unaudited)	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance, December 31, 2003 as previously reported	66,575	$ 66,575	$ 581,224	$ 53,107	$ 14,583	$ 715,489
Restatement adjustment				5,391		5,391
Balance, December 31, 2003 as restated	66,575	$ 66,575	$ 581,224	$ 58,498	$ 14,583	$ 720,880
Net income (restated)				24,496		24,496
Unrealized net securities losses, net of $(25,770) tax					(40,354)	(40,354)
Reclassification adjustment for gains included in net income, net of $(843) tax					(1,163)	(1,163)
Net unrealized derivative gains on cash flow hedges, net of $333 tax					516	516
Reclassification adjustment on cash flow hedges, net of $62 tax					94	94
Cash dividends				(25,232)		(25,232)
Stock repurchased	(729)	(729)	(15,402)			(16,131)
Stock reissued under stock option and stock purchase plans	427	427	8,859			9,286
Balance, June 30, 2004	66,273	$ 66,273	$ 574,681	$ 57,762	($ 26,324)	$ 672,392
Balance, December 31, 2004 as previously reported	**69,287**	**$ 69,287**	**$ 629,577**	**$**	**$ 4,344**	**$ 703,208**
Restatement adjustment			**884**			**884**
Balance, December 31, 2004 as restated	**69,287**	**$ 69,287**	**630,461**	**$**	**$ 4,344**	**$ 704,092**
Net income (restated)				**39,811**		**39,811**
Unrealized net securities losses, net of $(2,860) tax					**(5,010)**	**(5,010)**
Reclassification adjustment for securities gains included in net income, net of $(190)					**(333)**	**(333)**

tax						
Net unrealized derivative gains on cash flow hedges, net of $377 tax					**585**	**585**
Reclassification adjustment on cash flow hedges, net of $(48) tax					**(76)**	**(76)**
Stock issued for acquisition	**971**	**971**	**17,569**			**18,540**
Cash dividends				**(26,031)**		**(26,031)**
Stock repurchased	**(1,584)**	**(1,584)**	**(31,373)**			**(32,957)**
Stock issued under stock option, restricted stock and stock purchase plans	**276**	**276**	**2,693**			**2,969**
Balance, June 30, 2005	**68,950**	**$ 68,950**	**$ 619,350**	**$ 13,780**	**($ 490)**	**$ 701,590**

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENT OF CASH FLOWS

(dollars in thousands) (unaudited)	Six Months Ended June 30, 2005 (restated)	2004 (restated)
Cash Flows From Operating Activities		
Net income	**$ 39,811**	$ 24,496
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**7,641**	6,420
Amortization of other intangible assets and goodwill impairment	**4,137**	1,599
Net premium amortization on investment securities	**1,677**	2,023
Amortization of unearned stock compensation	**1,441**	
Provision for loan losses	**11,100**	15,000
Net securities gains	**(523)**	(2,006)
Gain on derivatives	**(5,277)**	(46)
Net gains on sales and write-downs of loans and other assets	**(797)**	(4,645)
Residential real estate loans originated for sale	**(187,739)**	(193,881)
Proceeds from sale of residential real estate loans	**157,628**	187,226
Increase in accrued interest and other assets	**(584)**	(43,704)
Increase (decrease) in accrued expenses and other liabilities	**(8,737)**	56,314
Total adjustments	**(20,033)**	24,300
Net cash flows provided by operating activities	**19,778**	48,796
Cash Flows From Investing Activities		
Cash and cash equivalents of subsidiaries acquired, net	**2,699**	
Purchases of investment securities available-for-sale	**(258,172)**	(546,554)
Purchases of investment securities held-to-maturity	**(25,000)**	
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**188,155**	401,356
Proceeds from sales of investment securities available-for-sale	**444,670**	216,493
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**15,414**	17,464
Proceeds from sale of loans	**21,355**	404,424
Net principal collected from (loans made to) customers	**(91,207)**	42,573
Proceeds from sale of premises and equipment and other assets	**830**	2,669
Purchase of premises and equipment	**(6,698)**	(28,993)
Net cash flows provided by investing activities	**292,046**	509,432
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Noninterest-bearing demand deposits	**5,833**	(38,647)
Savings, NOW and money market deposits	**(81,468)**	122,926

Time deposits	**(18,975)**	(224,641)
Short-term borrowings	**120,693**	12,091
Payments for maturities on other borrowings	**(312,295)**	(210,238)
Proceeds from issuance of other borrowings	**50,000**	54,543
Cash dividends paid	**(26,031)**	(25,232)
Common stock repurchased	**(32,957)**	(16,131)
Common stock issued under stock option, restricted stock and stock purchase plans	**1,528**	9,286
Net cash flows used in financing activities	**(293,672)**	(316,043)
Net increase in cash and cash equivalents	**18,152**	242,185
Cash and cash equivalents at beginning of period	**216,998**	236,889
Cash and cash equivalents at end of period	**$ 235,150**	$ 479,074
Total interest paid	**$ 92,378**	$ 86,488
Total taxes paid	**$ 5,491**	$ 6,990

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

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OLD NATIONAL BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (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. All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2005 presentation. Such reclassifications had no effect on net income. 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 June 30, 2005 and 2004, and December 31, 2004, and the results of its operations for the three and six months ended June 30, 2005 and 2004. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with the 2004 annual financial statements which were restated within Old National s Annual Report on Form 10-K for the year ended December 31, 2005.

NOTE 2 RESTATEMENT

The previously issued consolidated financial statements for the three months and six months ended June 30, 2005 and 2004 have been restated. The restatement is correcting errors related to the Old National s derivative accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

Old National has entered into interest rate swap agreements relating to certain of its brokered certificates of deposit and junior subordinated debt that were accounted for as fair value hedges under SFAS No. 133. Old National previously elected the short-cut method of documenting the effectiveness of the swaps as hedges, which allowed Old National to assume no ineffectiveness in these transactions. Old National recently concluded that these swaps did not qualify for the short-cut method in prior periods. Based upon re-examination of the original documentation supporting the designation of these swap transactions as hedges, the Company concluded, in retrospect, that the hedging relationships involving brokered certificates of deposit did not qualify for the short-cut method in prior periods because the related swap did not have a fair value of zero at inception (a requirement under SFAS No. 133 to qualify for the short-cut method). Additionally, the Company determined that the hedging relationships involving junior subordinated debt did not qualify for the short-cut method in prior periods because of an interest deferral feature that permits interest payments to be deferred for up to 20 consecutive quarterly periods without creating an event of default or acceleration. Hedge accounting under SFAS No. 133 for these swap transactions is not allowed retrospectively because the hedge documentation required for the long-haul method was not in place at the inception of the hedge. Eliminating the application of fair value hedge accounting reverses the basis adjustments that were made to the brokered certificates of deposit and junior subordinated debt that originally offset the changes in fair value of the related derivatives. The changes in fair value of the derivatives are now reflected in noninterest income along with the swap net settlements that had been previously reported in interest expense.

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CONSOLIDATED BALANCE SHEETS:

	As of June 30, 2005	
(dollars in thousands)	As Previously Reported	As Restated
Assets held for sale	$ 62,060	$ 60,230
Total assets	8,650,338	8,648,508
Interest bearing deposits	5,463,721	5,467,048
Other borrowings	1,051,315	1,047,316
Accrued expenses and other liabilities	93,646	93,124
Total liabilities	7,948,112	7,946,918
Capital surplus	618,466	619,350
Retained earnings	15,300	13,780
Total shareholders equity	702,226	701,590
Total liabilities and shareholders equity	$ 8,650,338	$ 8,648,508

CONSOLIDATED STATEMENTS OF INCOME:

	For the Three Months Ended June 30,			
	2005		2004	
(dollars in thousands)	As Previously Reported	As Restated	As Previously Reported	As Restated
Interest on deposits	$ 31,720	$ 33,247	$ 26,948	$ 29,960
Interest on other borrowings	13,494	14,412	12,260	14,379
Total interest expense	47,880	50,325	40,271	45,402
Net interest income	57,126	54,681	65,130	59,999
Net interest income after provision for loan losses	51,126	48,681	57,630	52,499
Gain (loss) on derivatives		8,149		(9,243)
Total noninterest income	38,473	46,242	42,380	33,013
Income (loss) before income taxes and discontinued operations	25,698	31,298	8,285	(6,009)
Income tax expense (benefit)	4,489	6,601	(1,930)	(7,268)
Income from continuing operations	21,209	24,697	10,215	1,259
Income (loss) from discontinued operations (1)	1,666	542	1,068	1,068
Net income	$ 22,875	$ 25,239	$ 11,283	$ 2,327
Per common share:				
Basic net income from continuing operations	$ 0.37	$ 0.37	$ 0.14	$ 0.01
Basic net income from discontinued operations	0.02		0.02	0.02
Basic net income	0.33	0.37	0.16	0.03
Diluted net income from continuing operations	0.31	0.37	0.14	0.01
Diluted net income from discontinued operations	0.02		0.02	0.02
Diluted net income	0.33	0.37	0.16	0.03

Certain reclassifications were made to previously reported balances in order to be consistent with current presentation.
(1)

Old National recorded a $1.1 million impairment charge in the third quarter of 2005. Based on timing, this charge should have been recorded in the second quarter of 2005, as reflected above.

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CONSOLIDATED STATEMENTS OF INCOME:

	For the Six Months Ended June 30, 2005		2004	
(dollars in thousands)	As Previously Reported	As Restated	As Previously Reported	As Restated
Interest on deposits	$ 60,730	$ 64,096	$ 56,313	$ 62,229
Interest on other borrowings	26,597	29,117	24,915	29,151
Total interest expense	92,010	97,896	83,281	93,433
Net interest income	115,764	109,878	130,229	120,077
Net interest income after provision for loan losses	104,664	98,778	115,229	105,077
Gain on derivatives		5,277		46
Total noninterest income	74,478	79,221	80,040	79,782
Income before income taxes and discontinued operations	48,885	48,297	29,542	19,490
Income tax expense (benefit)	8,236	8,044	737	(3,019)
Income from continuing operations	40,649	40,253	28,805	22,509
Income (loss) from discontinued operations (1)	682	(442)	1,987	1,987
Net income	$ 41,331	$ 39,811	$ 30,792	$ 24,496
Per common share:				
Basic net income from continuing operations	$ 0.59	$ 0.59	$ 0.41	$ 0.32
Basic net income from discontinued operations	0.01	(0.01)	0.03	0.03
Basic net income	0.60	0.58	0.44	0.35
Diluted net income from continuing operations	0.59	0.59	0.41	0.32
Diluted net income from discontinued operations	0.01	(0.01)	0.03	0.03
Diluted net income	0.60	0.58	0.44	0.35

Certain reclassifications were made to previously reported balances in order to be consistent with current presentation.

(1) Old National recorded a $1.1 million impairment charge in the third quarter of 2005. Based on timing, this charge should have been recorded in the second quarter of 2005, as reflected above.

Also affected by the restatements were notes 1, 3, 5, 11, 13, 14, 15, 18 and 19 to the consolidated financial statements.

NOTE 3 IMPACT OF ACCOUNTING CHANGES

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment, that requires companies to expense the value of employee stock options and similar awards. Subsequently, the Securities and Exchange Commission (SEC) delayed the effective date of SFAS No. 123R to annual periods beginning after June 15, 2005. Given this delay, Old National expects to adopt SFAS No. 123R in the first quarter of 2006 using the modified prospective method applied to all outstanding and unvested share-based payment awards at the adoption date. Under this method, Old National expects to expense approximately $1.4 million in 2006 and $0.1 million in 2007. At June 30, 2005, and until the effective date of SFAS No. 123R, Old National will apply Accounting Principles Board (APB) Opinion No. 25 and related Interpretations in accounting for stock-based compensation plans. Under APB Opinion No. 25, no compensation cost has been recognized for any of the years presented, except with respect to restricted stock plans as disclosed in the accompanying table.

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Old National has presented in the following table net income and net income per share adjusted to proforma amounts had compensation costs for Old National s stock-based compensation plans been recorded based on fair values at grant dates.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share data)	**2005**	2004	**2005**	2004
Net income as reported	**$ 25,239**	$ 2,327	**$ 39,811**	$ 24,496
Restricted Stock:				
Add: restricted stock compensation expense included in reported net income, net of related tax effects	**617**		**937**	
Deduct: restricted stock compensation expense determined under fair value based method for all awards, net of related tax effects	**(587)**		**(1,070)**	
Stock Options:				
Deduct: stock option compensation expense determined under fair value based method for all awards, net of related tax effects	**(544)**	(855)	**(1,871)**	(2,518)
Proforma net income	**$ 24,725**	$ 1,472	**$ 37,807**	$ 21,978
Basic net income per share:				
As reported	**$ 0.37**	$ 0.03	**$ 0.58**	$ 0.35
Proforma	**0.36**	0.02	**0.55**	0.32
Diluted net income per share:				
As reported	**$ 0.37**	$ 0.03	**$ 0.58**	$ 0.35
Proforma	**0.36**	0.02	**0.55**	0.31

NOTE 4 ACQUISITION

On May 1, 2005, Old National acquired J. W. F. Insurance Companies, an Indianapolis, Indiana-based insurance agency that did business as J.W. Flynn Company and J.W.F. Specialty Company, Inc., for $19.0 million, including acquisition costs. Common shares of 970,912 were issued as part of the transaction with a stock value of $18.5 million. Goodwill of $12.0 million was recorded of which $3.5 million is expected to be deductible for tax purposes. In addition, intangible assets totaling $8.4 million related to customer business relationships were recorded and are being amortized over 12 to 22 years. Beginning with the quarter ended June 30, 2005, these acquisitions will be included with the non-bank service companies in the other column of Note 18 Segment Information. In accordance with the purchase agreement, future contingent payments may be paid in relation to this acquisition. These payments, which are not expected to be material, would result in a change to the purchase price and goodwill when paid. On the date of acquisition, unaudited financial statements of the companies showed assets of $5.0 million with year-to-date revenues of $4.7 million and net loss of $0.2 million.

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NOTE 5 NET INCOME PER SHARE

Restricted stock shares were antidilutive at June 30, 2005, for purposes of calculating diluted net income per share. The following table reconciles basic and diluted net income per share for the three and six months ended June 30:

(dollars and shares in thousands, except per share data)	Three Months Ended June 30, 2005			Three Months Ended June 30, 2004		
	Income	**Shares**	**Amount**	**Income**	**Shares**	**Amount**
Basic Net Income Per Share						
Income from continuing operations	**$ 24,697**	**68,471**	**$ 0.37**	$ 1,259	69,651	$ 0.01
Income from discontinued operations	**542**			1,068		0.02
Income from operations	**$ 25,239**	**68,471**	**$ 0.37**	$ 2,327	69,651	$ 0.03
Diluted Net Income Per Share						
Income from continuing operations	**$ 24,697**	**68,471**	**$ 0.37**	$ 1,259	69,651	$ 0.01
Effect of dilutive securities: Stock options		**17**			509	
Income from continuing operations and assumed conversions	**$ 24,697**	**68,488**	**$ 0.37**	$ 1,259	70,160	$ 0.01
Income from discontinued operations	**542**			1,068		0.02
Income from operations and assumed conversions	**$ 25,239**	**68,488**	**$ 0.37**	$ 2,327	70,160	$ 0.03

(dollars and shares in thousands, except per share data)	Six Months Ended June 30, 2005			Six Months Ended June 30, 2004		
	Income	**Shares**	**Amount**	**Income**	**Shares**	**Amount**
Basic Net Income Per Share						
Income from continuing operations	**$ 40,253**	**68,530**	**$ 0.59**	$ 22,509	69,664	$ 0.32
Income from discontinued operations	**(442)**		**(0.01)**	1,987		0.03
Income from operations	**$ 39,811**	**68,530**	**$ 0.58**	$ 24,496	69,664	$ 0.35

Diluted Net Income Per Share						
Income from continuing operations	**$ 40,253**	**68,530**	**$ 0.59**	$ 22,509	69,664	$ 0.32
Effect of dilutive securities:						
Stock options		**42**			282	
Income from continuing operations and assumed conversions	**$ 40,253**	**68,572**	**$ 0.59**	$ 22,509	69,946	$ 0.32
Income from discontinued operations	**(442)**		**(0.01)**	1,987		0.03
Income from operations and assumed conversions	**$ 39,811**	**68,572**	**$ 0.58**	$ 24,496	69,946	$ 0.35

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 June 30 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
2005				
Available-for-sale	**$ 2,400,776**	**$ 29,565**	**$ (28,685)**	**$ 2,401,656**
Held-to-maturity	**187,032**	**61**	**(2,196)**	**184,897**
2004				
Available-for-sale	$ 2,562,271	$ 28,787	$ (73,168)	$ 2,517,890
Held-to-maturity	192,934		(6,724)	186,210

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At June 30, 2005, Old National does not believe any individual unrealized loss represents other-than-temporary impairment. The unrealized losses are primarily attributable to changes in interest rates. Factors considered in evaluating the securities included whether the securities were backed by U.S. Government-sponsored agencies and credit quality concerns surrounding the recovery of the full principal balance. Old National has both the intent and ability to hold securities with any individual unrealized loss for a time necessary to recover the amortized cost.

NOTE 7 LOANS HELD FOR SALE

Residential loans held for sale are recorded at lower of cost or market value determined as of the balance sheet date. Old National s residential loans held for sale have been hedged using fair value hedge accounting in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The loans carrying basis reflects the effects of the SFAS No. 133 adjustments. At June 30, 2005 and 2004, Old National had residential loans held for sale of $53.3 million and $26.8 million, respectively. As of June 30, 2005 and 2004, ineffectiveness related to the hedge of a portion of the residential loans held for sale was immaterial.

During the second quarter of 2005, commercial loans held for investment of $26.7 million were reclassified to loans held for sale and sold for $21.4 million resulting in a write-down on loans transferred to held for sale of $5.3 million, which was recorded as a reduction to the allowance for loan losses. During the second quarter of 2004, residential real estate loans held for investment of $405.6 million were reclassified to loans held for sale and sold for $404.4 million resulting in a write-down on loans transferred to held for sale of $1.2 million, which was recorded as a reduction to the allowance for loan losses. Also in connection with this transaction, mortgage servicing rights of $2.7 million were capitalized, and a net gain of $2.7 million was recognized.

NOTE 8 ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses was as follows:

(dollars in thousands)	**2005**	**2004**
Balance, January 1	**$ 85,749**	$ 95,235
Transfer from allowance for unfunded commitments		755
Additions:		
Provision charged to expense	**11,100**	15,000
Deductions:		
Write-downs from loans transferred to held for sale	**5,348**	1,177
Loans charged-off	**15,090**	18,332
Recoveries	**(4,234)**	(3,584)
Net charge-offs	**16,204**	15,925
Balance, June 30	**$ 80,645**	$ 95,065

During 2004, Old National reclassified the allowance for loan losses related to unfunded loan commitments to other liabilities.

The following is a summary of information pertaining to impaired loans at June 30:

(dollars in thousands)	**2005**	**2004**
Impaired loans without a valuation allowance	**$ 7,274**	$ 20,911
Impaired loans with a valuation allowance	**30,639**	63,721
Total impaired loans	**$ 37,913**	$ 84,632

Valuation allowance related to impaired loans	**$ 12,059**	$ 28,035

A loan is considered impaired under SFAS No. 114, Accounting by Creditors for Impairment of a Loan, an amendment of FASB Statement No. 5 and 15 when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. An impaired loan does not include larger groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, loans that are measured at fair value or at the lower of cost or fair value, leases and debt securities.

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For the six months ended June 30, 2005, the average balance of impaired loans was $42.4 million for which no interest was recorded. For the six months ended June 30, 2004, the average balance of impaired loans was $90.1 million for which $0.4 million of interest was recorded. No additional funds are committed to be advanced in connection with impaired loans. Loans deemed impaired are evaluated primarily using the fair value of the underlying collateral.

NOTE 9 GOODWILL AND OTHER INTANGIBLE ASSETS

At June 30, 2005 and 2004, Old National had goodwill in the amount of $113.1million and $129.3 million, respectively. During the six months ended June 30, 2005, Old National reclassified the assets and liabilities of specific non-strategic companies as held for sale, including $26.1 million of goodwill. Concurrent with this classification, these discontinued operations were evaluated for impairment using estimated fair values in the current market, resulting in goodwill impairment of $2.9 million.

The change in the carrying amount of goodwill by segment for the six months ended June 30 was as follows:

(dollars in thousands)	Community Banking	Other	Total
Balance, January 1, 2005	**$ 70,944**	**$ 59,003**	**$ 129,947**
Goodwill acquired during the year		**12,020**	**12,020**
Adjustments to goodwill acquired in prior year		**150**	**150**
Goodwill transfered to assets held for sale		**(26,082)**	**(26,082)**
Goodwill impairment		**(2,900)**	**(2,900)**
Balance, June 30, 2005	**$ 70,944**	**$ 42,191**	**$ 113,135**
Balance, January 1, 2004	$ 70,944	$ 58,307	$ 129,251
Adjustments to goodwill acquired in prior year		14	14
Balance, June 30, 2004	$ 70,944	$ 58,321	$ 129,265

At June 30, 2005 and 2004, Old National had $24.3 million and $40.3 million, respectively, in unamortized intangible assets. During the six months ended June 30, 2005, Old National reclassified definite-lived intangible assets of $18.9 million and indefinite-lived assets of $2.8 million to assets held for sale and discontinued the related amortization. Old National continues to amortize definite-lived intangible assets in continuing operations over the estimated remaining life of each respective asset.

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The following table shows the gross carrying amounts and accumulated amortization for other intangible assets as of June 30:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
2005			
Amortized intangible assets:			
Core deposit	**$ 5,574**	**$ (3,917)**	**$ 1,657**
Customer business relationships	**25,411**	**(2,733)**	**22,678**
Total intangible assets	**$ 30,985**	**$ (6,650)**	**$ 24,335**
2004			
Amortized intangible assets:			
Core deposit	$ 5,574	$ (3,353)	$ 2,221
Customer business relationships	36,676	(3,104)	33,572
Non-compete agreements	1,100	(110)	990
Technology	1,300	(570)	730
Total amortized intangible assets	44,650	(7,137)	37,513
Unamortized intangible assets:			
Trade name	2,800		2,800
Total intangible assets	$ 47,450	$ (7,137)	$ 40,313

Total amortization expense associated with other intangible assets for the three months ended June 30 was $0.6 million in 2005 and $0.5 million in 2004. Year-to-date amortization expense as of June 30, 2005 and 2004, was $1.2 million and $0.9 million, respectively.

The following is the estimated amortization expense for the future years ending:

(dollars in thousands)	
2005 remaining	$ 1,275
2006	2,384
2007	2,011
2008	1,880
2009	1,756
Thereafter	15,029
Total	$ 24,335

NOTE 10 MORTGAGE SERVICING RIGHTS

Mortgage servicing rights derived from loans sold with servicing retained were $14.6 million and $17.6 million at June 30, 2005 and 2004, respectively. Loans serviced for others are not included in the consolidated balance sheet of Old National. The unpaid principal balance of mortgage loans serviced for others at June 30 was $1.937 billion in 2005 and $2.134 billion in 2004. At June 30, 2005 and 2004, the fair value of capitalized mortgage servicing rights was $16.9 million and $21.5 million, respectively. Old National s key economic assumptions used in determining the fair value of mortgage servicing rights at June 30, 2005 and 2004, respectively, were a weighted average prepayment rate of 305 PSA together with a weighted average discount rate of 9.1% and a weighted average prepayment rate of 223 PSA together with a weighted average discount rate of 9.2%.

The following summarizes the activities related to mortgage servicing rights and the related valuation allowance at June 30:

(dollars in thousands)	2005	2004
Balance before valuation allowance, January 1	**$ 15,829**	$ 15,790
Rights capitalized	**1,514**	4,942
Amortization	**(2,778)**	(3,161)
Balance before valuation allowance, June 30	**14,565**	17,571
Valuation allowance:		
Balance, January 1		(1,131)
Additions to valuation allowance		(1,940)
Reductions to valuation allowance		3,071
Balance, June 30		
Mortgage servicing rights, net	**$ 14,565**	$ 17,571

NOTE 11 FINANCING ACTIVITIES

The following table summarizes Old National s other borrowings at June 30:

(dollars in thousands)	2005	2004
Old National Bancorp:		
Medium-term notes, Series 1997 (fixed rates 3.50% to 7.03%) maturities August 2007 to June 2008	**$ 110,000**	$ 113,200
Senior unsecured bank note (fixed rate 5.00%) maturity May 2010	**50,000**	
Junior subordinated debenture (fixed rate 8.00%) maturity April 2032	**100,000**	150,000
SFAS 133 fair value hedge and other basis adjustments	**(3,358)**	(4,563)
Old National Bank:		
Securities sold under agreements to repurchase (fixed rates 1.70% to 2.75% and variable rate 4.07%) maturities May 2008 to December 2009	**148,000**	298,000
Federal Home Loan Bank advances (fixed rates 4.28% to 8.34%) maturities August 2005 to October 2022	**384,556**	580,116
Senior unsecured bank notes (fixed rate 3.95% and variable rates 3.57% to 3.76%) maturities May 2006 to February 2008	**100,000**	165,000
Subordinated bank note (fixed rate 6.75%) maturing October 2011	**150,000**	150,000
Capital lease obligation	**4,508**	4,536
SFAS 133 fair value hedge and other basis adjustments	**3,610**	(6,614)
Total other borrowings	**$ 1,047,316**	$ 1,449,675

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Contractual maturities of other borrowings at June 30, 2005, were as follows:

(dollars in thousands)	
Due in 2005	$ 30,068
Due in 2006	78,361
Due in 2007	60,034
Due in 2008	343,037
Due in 2009	76,040
Thereafter	459,524
SFAS 133 fair value hedge and other basis adjustments	252
Total	$ 1,047,316

FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances had weighted-average rates of 5.50% and 5.32% at June 30, 2005 and 2004, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 150% of outstanding debt.

SUBORDINATED BANK NOTES

Subordinated bank notes qualify as Tier 2 Capital for regulatory purposes and are in accordance with the senior and subordinated global bank note program in which Old National Bank may issue and sell up to a maximum of $1 billion. Notes issued by Old National Bank under the global note program are not obligations of, or guaranteed by, Old National Bancorp.

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.

Old National guarantees the payment of distributions on the trust preferred securities issued by ONB Capital Trust II. ONB Capital Trust II issued $100 million in preferred securities in April 2002. The preferred securities have a liquidation amount of $25 per share with a cumulative annual distribution rate of 8.0% or $2.00 per share payable quarterly and maturing on April 15, 2032. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by ONB Capital Trust II. Old National may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole (or in part from time to time) on or after April 12, 2007, and in whole (but not in part) following the occurrence and continuance of certain adverse federal income tax or capital treatment events. Costs associated with the issuance of these trust preferred securities totaling $3.3 million in 2002 were capitalized and are being amortized through the maturity dates of the securities. The unamortized balance is included in other assets in the consolidated balance sheet.

In March 2000, ONB Capital Trust I issued $50 million in preferred securities guaranteed by Old National. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by ONB Capital Trust I. In May 2005, Old National redeemed the $50 million of junior subordinated debentures issued in March 2000, thereby causing a redemption of all of the ONB Capital Trust, 9.5% trust preferred securities. In connection with the redemption, Old National expensed the remaining $1.7 million of unamortized debt issuance costs related to this debt.

CAPITAL LEASE OBLIGATION

On January 1, 2004, Old National entered into a long-term capital lease obligation for a new 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 borrowings rate for similar types of borrowing arrangements.

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At June 30, 2005, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)	
2005 remaining	$ 186
2006	371
2007	371
2008	371
2009	390
Thereafter	12,874
Total minimum lease payments	14,563
Less amounts representing interest	10,055
Present value of net minimum lease payments	$ 4,508

NOTE 12 EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN

The following table sets forth the components of the net periodic benefit cost for Old National s noncontributory defined benefit retirement plan for the six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2005**	**2004**	**2005**	**2004**
Service cost	**$ 360**	$ 485	**$ 878**	$ 1,022
Interest cost	**891**	999	**1,784**	1,974
Expected return on plan assets	**(1,012)**	(901)	**(1,920)**	(1,752)
Amortization of prior service cost	**(86)**	8	**(78)**	16
Amortization of transitional asset		(108)		(216)
Recognized actuarial loss	**378**	392	**786**	789
Net periodic benefit cost	**$ 531**	$ 875	**$ 1,450**	$ 1,833

STOCK-BASED COMPENSATION

Under the 1999 Equity Incentive Plan, Old National is authorized to grant up to 7.6 million shares of common stock. At June 30, 2005, 6.5 million shares were outstanding under the plan, including 6.0 million stock options and 0.5 million shares of restricted stock as described below, and 1.1 million shares were available for issuance. In addition, Old National assumed 0.1 million stock options outstanding through various mergers. Old National accounts for its stock-based compensation plans in accordance with APB Opinion No. 25 and related Interpretations, under which no compensation cost has been recognized, except with respect to restricted stock plans. See Note 3 for proforma net income and net income per share data.

Stock Options

On February 2, 2004, Old National granted 0.3 million stock options to key associates at an option price of $20.43, the closing price of Old National s stock on that date. The options vested 100% on December 31, 2004, and expire in ten years. Also during 2004, Old National granted 26.3 thousand shares to a key associate at an option price of $23.99, the closing price of Old National s stock on that date. These options vest 100% on September 7, 2005, and expire in ten years. At June 30, 2005, Old National had 6.0 million of stock options outstanding.

Restricted Stock

On January 27, 2005, Old National s Board of Directors approved a restricted stock award to grant 0.2 million shares to certain key officers with shares vesting at the end of a thirty-eight month period based on the achievement of certain targets. On July 22, 2004, Old National s Board of Directors approved a restricted stock award to grant 0.3 million shares to certain key officers with shares vesting at the end of a thirty-two month period based on the achievement of certain targets. Compensation expense is recognized on a straight-line basis over the performance period. Shares are subject to certain restrictions and risk of forfeiture by the participants.

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At June 30, 2005, the shares issued have an estimated value of $10.0 million based on the stock price on that date. The expense recognized during the six months ended June 30, 2005, related to the vesting of these awards was $1.4 million. The remaining $7.5 million of deferred compensation is included as a component of capital surplus.

NOTE 13 INCOME TAXES

The 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 and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2005**	**2004**	**2005**	**2004**
Provision at statutory rate of 35%	**$ 10,954**	$ (2,103)	**$ 16,904**	$ 6,822
Tax-exempt income	**(4,332)**	(4,595)	**(8,672)**	(9,400)
Other, net	**(21)**	(570)	**(188)**	(441)
Income tax expense (benefit)	**$ 6,601**	$ (7,268)	**$ 8,044**	$ (3,019)
Effective tax rate	**21.1%**	121.0%	**16.7%**	(15.5)%

For the three months ended June 30, 2005, the effective tax rate was substantially lower than for the three months ended June 30, 2004. For the six months ended June 30, 2005, the effective tax rate was higher than for the six months ended June 30, 2004. The decreased effective tax rate for the three months ended June 30, 2005,resulted from a higher percentage of tax-exempt income to total income compared to the three months ended June 30, 2004; while the increased effective tax rate for the six months ended June 30, 2005, resulted from a lower percentage of tax-exempt income to total income compared to the six months ended June 30, 2004.

NOTE 14 COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2005**	**2004**	**2005**	**2004**
Net income:	**$ 25,239**	$ 2,327	**$ 39,811**	$ 24,496
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period, net of tax	**18,789**	(62,283)	**(5,010)**	(40,354)
Less: reclassification adjustment for securities gain realized in net income, net of tax	**(644)**	(13)	**(333)**	(1,163)
Cash flow hedges:				
Net unrealized derivative gains (losses) on cash flow hedges, net of tax	**(1,171)**	151	**585**	516
Less: reclassification adjustment on cash flow hedges, net of tax	**(10)**	47	**(76)**	94
Net unrealized gains (losses)	**16,964**	(62,098)	**(4,834)**	(40,907)
Comprehensive income (loss)	**$ 42,203**	$ (59,771)	**$ 34,977**	$ (16,411)

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NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS

Old National designates its derivatives based upon criteria established by SFAS No. 133, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment to FASB Statement No. 133, and SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. The following table summarizes the derivative financial instruments utilized by Old National at June 30:

	2005			2004		
	Notional	Estimated Fair Value		Notional	Estimated Fair Value	
(dollars in thousands)	Amount	Gain	Loss	Amount	Gain	Loss
Fair Value Hedges						
Receive fixed interest rate swaps	**$ 782,698**	**$ 3,605**	**$ (10,382)**	$ 725,393	$ 351	$ (18,301)
Pay fixed interest rate swaps	**20,000**		**(601)**			
Forward mortgage loan contracts	**16,002**	**33**		7,406		(38)
Cash Flow Hedges						
HELOC cash flow	**100,000**		**(813)**	100,000	28	(407)
Pay fixed interest rate swaps				120,000	2,342	
Stand Alone Derivatives						
Receive fixed interest rate swaps	**456,000**	**4,328**	**(3,730)**	496,000	6,588	(8,292)
Interest rate lock commitments	**52,991**	**234**		37,496	449	
Forward mortgage loan contracts	**67,070**	**12**		45,178		(254)
Options on contracts purchased				8,000		(16)
Anticipated floating rate debt	**55,000**		**(798)**			
Matched Customer Hedges						
Customer interest rate swaps	**161,430**	**2,538**	**(403)**	50,558	383	(650)
Customer interest rate swaps with counterparty	**161,430**	**403**	**(2,538)**	50,558	650	(383)
Customer interest rate cap	**2,300**		**(10)**	15,300		(68)
Customer interest rate cap with counterparty	**2,300**	**10**		15,300	68	
Total	**$ 1,877,221**	**$ 11,163**	**$ (19,275)**	$ 1,671,189	$ 10,859	$ (28,409)

NOTE 16 COMMITMENTS AND CONTINGENCIES

LITIGATION

In the normal course of business, various legal actions and proceedings, which are being vigorously defended, are pending against Old National and its affiliates.

Among these are several lawsuits relating to activities in 1995 of First National Bank & Trust Company, Carbondale, Illinois, (First National), which Old National acquired in 1999. These lawsuits were brought against Old National Bank, as successor to First National, and were filed by alleged third-party creditors of certain structured settlement trusts. The lawsuits filed by the third-party creditors allege actual damages totaling approximately $31.0 million, as well as unspecified punitive damages and other damages and attorneys fees. In addition, certain of the corporate defendants in these lawsuits have filed lawsuits asserting contribution and indemnity against Old National Bank. The cases were brought in the City of St. Louis and St. Louis County in Missouri; St. Clair County, Madison County and Cook County in Illinois; and the U.S. Federal District Court in southern Illinois. During the quarter ended March 31, 2005, Old National received summary judgement in its favor in the U.S. Federal District Court case in southern Illinois.

During the fourth quarter of 2003, Old National established a reserve of $10.0 million for settlement of certain of the lawsuits pending in the City of St. Louis and St. Louis County in Missouri and St. Clair County and Madison County in Illinois. As of March 31, 2004, Old National had paid $9.1 million of this reserve to settle a number of lawsuits representing approximately $12.0 million in alleged damages. As of June 30, 2005, the approximate $0.9

million remaining in the reserve for litigation settlement is deemed to be adequate to cover the remaining exposure for these cases of approximately $3.0 million.

Old National has obtained a summary judgement in its favor at the trial court level on lawsuits representing approximately $16.0 million of the estimated $31.0 million in exposure. The Court of Appeals for the First District affirmed the decision of the trial court for these cases filed in Cook County, Illinois. The plaintiffs petitioned the Illinois Supreme Court to review the Court of Appeal s decision. As of June 30, 2005, the Illinois Supreme Court has not yet determined whether or not it will review the Court of Appeals decision. It is uncertain at this time whether any future judgements or settlements in the Cook County matters will have a material impact on Old National s results of operations.

CREDIT-RELATED FINANCIAL INSTRUMENTS

In the normal course of business, Old National s banking affiliates have entered into various agreements to extend credit, including loan commitments of $1.279 billion, commercial letters of credit of $4.2 million and standby letters of credit of $138.2 million at June 30, 2005. At June 30, 2004, loan commitments were $1.345 billion, commercial letters of credit were $16.3 million and standby letters of credit were $101.9 million. These commitments are not reflected in the consolidated financial statements. No material losses are expected to result from these transactions.

At June 30, 2005 and 2004, Old National had credit extensions of $94.7 million and $72.1 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National s clients. At June 30, 2005 and 2004, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $62.7 million and $41.3 million, respectively. Old National did not provide collateral for the remaining credit extensions.

NOTE 17 FINANCIAL GUARANTEES

Old National holds instruments, in the normal course of business with clients that are considered financial guarantees in accordance with FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At June 30, 2005, the notional amount of standby letters of credit was $138.2 million, which represents the maximum amount of future funding requirements, and the carrying value was $0.5 million.

NOTE 18 SEGMENT INFORMATION

Old National operates in two reportable segments: community banking and treasury. The community banking segment serves customers in both urban and rural markets providing a wide range of financial services including commercial, real estate and consumer loans; lease financing; checking, savings, time deposits and other depository accounts; cash management services; and debit cards and other electronically accessed banking services and Internet banking. Treasury manages investments, wholesale funding, interest rate risk, liquidity and leverage for Old National. Additionally, treasury provides other miscellaneous capital markets products for its corporate banking clients.

Beginning January 1, 2005, Old National disaggregated internal reporting for its non-bank operations, including wealth management, investment consulting, insurance, brokerage and investment and annuity sales. These lines of business are now included in the other column for all periods reported.

In order to measure performance for each segment, Old National allocates capital, corporate overhead and income tax provision to each segment. Capital and corporate overhead are allocated to each segment using various methodologies, which are subject to periodic changes by management. Income taxes are allocated using the effective tax rate. Tax-exempt income is primarily within the treasury segment, creating a tax benefit for this segment. Intersegment sales and transfers are not significant.

Old National uses a funds transfer pricing (FTP) system to eliminate the effect of interest rate risk from net interest income in the community banking segment and from companies included in the other column. The FTP

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system is used to credit or charge each segment for the funds the segments create or use. The net FTP credit or charge is reflected in segment net interest income.

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

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

(dollars in thousands)	Community Banking	Treasury	Other	Total
Three months ended June 30, 2005				
Net interest income	**$ 64,030**	**$ (5,621)**	**$ (3,728)**	**$ 54,681**
Provision for loan losses	**5,897**	**103**		**6,000**
Noninterest income	**18,472**	**9,833**	**17,937**	**46,242**
Noninterest expense	**51,251**	**998**	**11,376**	**63,625**
Income (loss) before income taxes and discontinued operations	**25,354**	**3,111**	**2,833**	**31,298**
Income tax expense (benefit)	**6,635**	**(943)**	**909**	**6,601**
Income from discontinued operations, net of income tax expense		**(1,124)**	**1,666**	**542**
Segment profit	**18,719**	**2,930**	**3,590**	**25,239**
Total assets	**5,315,115**	**3,052,496**	**280,897**	**8,648,508**
Three months ended June 30, 2004				
Net interest income	$ 71,858	$ (8,467)	$ (3,392)	$ 59,999
Provision for loan losses	7,442	58		7,500
Noninterest income	23,843	(6,892)	16,062	33,013
Noninterest expense	72,423	1,909	17,189	91,521
Income (loss) before income taxes and discontinued operations	15,836	(17,326)	(4,519)	(6,009)
Income tax expense (benefit)	3,100	(8,965)	(1,403)	(7,268)
Income from discontinued operations, net of income tax expense			1,068	1,068
Segment profit	12,736	(8,361)	(2,048)	2,327
Total assets	5,389,457	3,380,997	270,996	9,041,450

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(dollars in thousands)	Community Banking	Treasury	Other	Total
Six months ended June 30, 2005				
Net interest income	**$ 129,831**	**$ (12,857)**	**$ (7,096)**	**$ 109,878**
Provision for loan losses	**10,976**	**124**		**11,100**
Noninterest income	**35,855**	**8,747**	**34,619**	**79,221**
Noninterest expense	**105,378**	**1,745**	**22,579**	**129,702**
Income (loss) before income taxes and discontinued operations	**49,332**	**(5,979)**	**4,944**	**48,297**
Income tax expense (benefit)	**12,984**	**(6,533)**	**1,593**	**8,044**
Income from discontinued operations, net of income tax expense		**(1,124)**	**682**	**(442)**
Segment profit	**36,348**	**(570)**	**4,033**	**39,811**
Total assets	**5,315,115**	**3,052,496**	**280,897**	**8,648,508**
Six months ended June 30, 2004				
Net interest income	$ 142,044	$ (15,389)	$ (6,578)	$ 120,077
Provision for loan losses	14,884	116		15,000
Noninterest income	38,750	6,470	34,562	79,782
Noninterest expense	130,725	2,792	31,852	165,369
Income (loss) before income taxes and discontinued operations	35,185	(11,827)	(3,868)	19,490
Income tax expense (benefit)	7,748	(9,573)	(1,194)	(3,019)
Income from discontinued operations, net of income tax expense			1,987	1,987
Segment profit	27,437	(2,254)	(687)	24,496
Total assets	5,389,457	3,380,997	270,996	9,041,450

NOTE 19 DISCONTINUED OPERATIONS

In February 2005, Old National committed to a plan to sell selected non-strategic companies, J.W. Terrill Insurance Agency in St. Louis, Missouri, and Fund Evaluation Group in Cincinnati, Ohio, to better align its operations with its market and product focus. The assets and liabilities of these companies are reported as held for sale at lower of cost or market on the consolidated balance sheet at June 30, 2005. The operating activities of these companies have been reclassified to discontinued operations for all periods in the consolidated statement of income. Revenues of $9.2 million and $8.9 million with after-tax income of $0.5 million and $1.1 million were recorded for the three months ended June 30, 2005 and 2004, respectively. These discontinued operations generated revenues of $17.7 million and $17.1 million with after-tax loss of $0.4 million and income of $2.0 million for the six months ended June 30, 2005 and 2004, respectively and are reported in the other column for segment reporting.

Subsequent to the quarter ended June 30, 2005, Old National completed the sale of J.W. Terrill Insurance Agency in St. Louis, Missouri. The company was acquired in a tax-free reorganization under Internal Revenue Code section 368. As a result of the taxable sale, Old National expects to record tax expense of approximately $9.5 million in the third quarter. Actions to locate a buyer for Fund Evaluation Group have been initiated with an expected sale during 2005.

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Carrying amounts of the major classes of assets and liabilities of the discontinued operations included as held for sale were as follows at June 30, 2005:

(dollars in thousands)

Assets held for sale:	
Money market investments	**$ 9,120**
Available-for-sale securities	**11**
Premises and equipment, net	**371**
Goodwill	**24,252**
Other intangible assets	**21,681**
Other assets	**4,795**
Total assets held for sale	**$60,230**
Liabilities held-for-sale:	
Other liabilities	**$14,333**

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

On January 31, 2006, Old National announced that it would restate certain of its previously issued financial statements because they contained errors under GAAP relating to the accounting for certain derivative transactions and other non-significant items. Accordingly, all amounts referred to in the following discussion and analysis, to the extent impacted, have been restated. For additional information regarding this statement, see Note 2 to the consolidated financial statements.

EXECUTIVE SUMMARY

Net income for the three and six months ended June 30, 2005, increased compared to the three and six months ended June 30, 2004, primarily due to a significant decrease in noninterest expense, increases in noninterest income related to gains on derivatives, and lower provisions for loan losses. Noninterest expense in 2004 was impacted by nonrecurring charges related to the company-wide profit improvement project, Ascend . The decrease in the 2005 provision for loan losses is primarily a result of the improvement in Old National s credit quality performance. These improvements were offset by decreases in net interest income and mortgage banking revenue. However, Old National s June 30, 2005 loan balance represented the first quarterly increase in total loans since the three-month period ended June 30, 2001. Related to Old National s plan to sell selected non-strategic companies during 2005, net income includes after-tax income from discontinued operations of $0.5 million and after-tax losses from discontinued operations of $0.4 million, respectively, for the three and six months ended June 30, 2005, and $1.1 million and $2.0 million, respectively, for the three and six months ended June 30, 2004. See Note 19 to the consolidated financial statements for further discussion of discontinued operations.

Total assets at June 30, 2005, were $8.649 billion compared to total assets of $9.041 billion at June 30, 2004, and $8.898 billion at December 31, 2004. The decrease, primarily reflective of reductions in the investment portfolio with a corresponding decrease in borrowed funds, is an effort to right size the balance sheet in response to the flattening yield curve and resulting narrowing spreads. Partially offsetting this decrease was the addition of $24.3 million of assets related to the purchase of J. W. F. Insurance Companies on May 1, 2005. Included in total assets at June 30, 2005, was $60.2 million of assets held for sale related to Old National s plan to sell selected non-strategic companies during 2005. See Note 19 to the consolidated financial statements for further discussion of discontinued operations.

Management uses various indicators such as return on assets, return on equity and asset quality ratios in order to evaluate the performance of the business. These are discussed throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations.

FINANCIAL BASIS AND FORWARD-LOOKING STATEMENTS

The following discussion is an analysis of Old National s results of operations for the three months and six months ended June 30, 2005 and 2004, and financial condition as of June 30, 2005, compared to June 30, 2004, and December 31, 2004. This discussion and analysis should be read in conjunction with Old National s consolidated financial statements and related notes. This discussion contains forward-looking statements concerning Old National s business that are based on estimates and involves certain risks and uncertainties. Therefore, future results could differ significantly from management s current expectations and the related forward-looking statements.

The following is a cautionary note about forward-looking statements. In its oral and written communications, Old National from time to time includes forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements can include statements about estimated cost savings, plans and objectives for future operations, and expectations about performance as well as economic and market conditions and trends. These statements often can be identified by the use of words like expect, may, could, intend, project, estimate, believe or anticipate. Old National may include forward-looking statements in filings with the Securities and Exchange Commission, such as this Form 10-Q, in other written materials and in oral statements made by senior management to analysts, investors, representatives of the media and others. It is intended that these forward-looking statements speak only as of the date they are made, and Old

National undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the forward-looking statement is made or to reflect the occurrence of unanticipated events. By their nature, forward-looking statements are based on assumptions and are subject to risks, uncertainties and other factors. Actual results may differ materially from those contained in the forward-looking statement. Uncertainties which could affect Old National s future performance include, but are not limited to: (1) economic, market, operational, liquidity, credit and interest rate risks associated with Old National s business; (2) economic conditions generally and in the financial services industry; (3) increased competition in the financial services industry either nationally or regionally, resulting in, among other things, credit quality deterioration; (4) volatility and direction of market interest rates; (5) governmental legislation and regulation, including changes in accounting regulation or standards; (6) the ability of Old National to execute its business plan; (7) a weakening of the economy which could materially impact credit quality trends and the ability to generate loans; (8) changes in the securities markets; and (9) changes in fiscal, monetary and tax policies. Investors should consider these risks, uncertainties and other factors in addition to those mentioned by Old National in this and its other filings from time to time when considering any forward-looking statement.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as disclosures found elsewhere in this quarterly report, are based upon Old National s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires Old National to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of the mortgage servicing rights and the valuation of goodwill and other intangible assets. Actual results could differ from those estimates.

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

The allowance is increased through a provision charged to operating expense. Uncollectible loans are charged-off through the allowance. Recoveries of loans previously charged-off are added to the allowance. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. Old National s policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status. A loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest.

Old National monitors the quality of its loan portfolio on an on-going basis and uses a combination of detailed credit assessments by relationship managers and credit officers, historic loss trends, and economic and business environment factors in determining its allowance for loan losses. Old National records provisions for loan losses based on current loans outstanding, grade changes, mix of loans and expected losses. A detailed loan loss evaluation on an individual loan basis for the company s highest risk loans is performed quarterly. Management follows the progress of the economy and how it might affect Old National s borrowers in both the near and the intermediate term. Old National has a formalized and disciplined independent loan review program to evaluate loan administration, credit quality and compliance with corporate loan standards. This program includes periodic reviews conducted at the community bank locations as well as regular reviews of problem loan reports, delinquencies and charge-offs.

Old National uses migration analysis as a tool to determine the adequacy of the allowance for loan losses for non-retail loans that are not impaired. Migration analysis is a statistical technique that attempts to estimate probable losses for existing pools of loans by matching actual losses incurred on loans back to their origination. The migration-derived historical commercial loan loss rates are applied to the current commercial loan pools to arrive at an estimate of probable losses for the loans existing at the time of analysis.

Old National calculates migration analysis using several different scenarios based on varying assumptions to evaluate the widest range of possible outcomes. The amounts determined by migration analysis are adjusted for management s best estimate of the effects of current economic conditions, loan quality trends, results from internal and external review examinations, loan volume trends, credit concentrations and various other factors. Historic loss ratios adjusted for expectations of future economic conditions are used in determining the appropriate level of reserves for consumer and residential real estate loans.

Management s analysis of probable losses inherent in the portfolio at June 30, 2005, resulted in a range for allowance for loan losses of $8.8 million with the potential effect to net income ranging from a decrease of $3.8 million to an increase of $2.0 million. These sensitivities are hypothetical and are not guarantees of actual results.

Mortgage Servicing Rights. Mortgage servicing rights are recognized as separate assets when loans are sold with servicing retained. The total price of loans sold is allocated between the loans sold and the mortgage servicing rights retained based on the relative fair values of each. The fair value of capitalized mortgage servicing rights is estimated by calculating the present value of estimated future net servicing income derived from related cash flows. Amortization of capitalized mortgage servicing rights is determined in proportion to and over the period of estimated net servicing income of the underlying financial assets. Impairment of mortgage servicing rights exists if the book value of the mortgage servicing rights exceeds its estimated fair value. In determining impairment, mortgage servicing rights are stratified by interest rates.

Critical assumptions used in determining fair value include expected mortgage loan prepayment rates, discount rates and other economic factors, which are determined based on current market conditions. The expected rates of mortgage loan prepayments are the most significant factors driving the value of mortgage servicing rights. Increases in expected mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. Fair values are derived by using a statistical modeling technique utilizing third-party market-based prepayment rate assumptions. Negative adjustments to the value, if any, are recognized through a valuation allowance by charges against mortgage servicing income. The use of a valuation allowance enables the recovery of this value as market conditions become more favorable.

A 10% and 20% adverse change in the current prepayment assumptions would decrease the fair value of mortgage servicing rights at June 30, 2005, by approximately $0.9 million and $1.6 million, respectively. A 10% and 20% adverse change in the discount rate assumption would decrease the fair value of mortgage servicing rights at June 30, 2005, by $0.4 million and $0.9 million, respectively. These sensitivities are hypothetical and are not guarantees of actual results. Also, in reality, changes in one factor may result in changes in other factors, which might magnify or counteract the sensitivities.

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

The determination of fair values is based on internal valuations using management s assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors. Changes in these factors, as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying values of goodwill or intangible assets and could result in impairment losses affecting the financials of the company as a whole and the individual lines of business in which the goodwill or intangible assets reside.

Management believes the accounting estimates related to the allowance for loan losses; the capitalization, amortization and valuation of mortgage servicing rights; and the valuation of goodwill and other intangible assets are critical accounting estimates because: (1) the estimates are highly susceptible to change from period to period because they require company management to make assumptions concerning, among other factors, the changes in the types and volumes of the portfolios, rates of future prepayments, valuation assumptions and anticipated economic conditions, and (2) the impact of recognizing an impairment or loan loss could have a material effect on Old National s assets reported on the balance sheet as well as net income. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the company s disclosure relating to it in this Management s Discussion and Analysis .

ACQUISITION AND DIVESTITURES ACTIVITY

On May 1, 2005, Old National acquired J. W. F. Insurance Companies, an Indianapolis, Indiana-based insurance agency that did business as J.W. Flynn Company and J.W.F. Specialty Company, Inc. The purchase price of $19.0 million included 970,912 common shares issued. Goodwill of $12.0 million and intangible assets of $8.4 million were recorded as part of this transaction. See Note 4 to the consolidated financial statements for further details.

During the six months ended June 30, 2005, Old National committed to a plan to sell selected non-strategic companies, J.W. Terrill Insurance Agency in St. Louis, Missouri, and Fund Evaluation Group in Cincinnati, Ohio, to better align its operations with its market and product focus. The assets and liabilities of these identified companies were reported as held for sale at lower of cost or market on the consolidated balance sheet at June 30, 2005, and were included as discontinued operations on the consolidated statement of income for all periods shown. See Note 19 to the consolidated financial statements for further details.

Subsequent to the quarter ended June 30, 2005, Old National completed the sale of J.W. Terrill Insurance Agency in St. Louis, Missouri. The company was acquired in a tax-free reorganization under Internal Revenue Code section 368. As a result of the taxable sale, Old National expects to record approximately $9.5 million of tax expense in the third quarter of 2005.

RESULTS OF OPERATIONS

Earnings Summary

Old National reported net income of $25.2 million for the three months ended June 30, 2005, an increase of $22.9 million from the $2.3 million recorded for the three months ended June 30, 2004. For the six months ended June 30, 2005, net income was $39.8 million, an increase of $15.3 million, or 62.5% from the $24.5 million recorded for the six months ended June 30, 2004. On a diluted per share basis, net income was $0.37 for the three months ended June 30, 2005, compared to $0.03 for the three months ended June 30, 2004. Diluted earnings per share were $0.58 for the six months ended June 30, 2005, compared to $0.35 for the six months ended June 30, 2004.

Related to Old National s plan to sell selected non-strategic companies during 2005, net income includes after-tax income from discontinued operations of $0.5 million, or $0.00 per diluted share for the three months ended June 30, 2005, compared to after-tax income from discontinued operations of $1.1 million, or $0.02 per diluted share for the three months ended June 30, 2004. Net income for the six months ended June 30, 2005, includes after-tax losses from discontinued operations of $0.4 million, or a loss of $0.01 per diluted share compared to after-tax income from discontinued operations of $2.0 million, or $0.03 per diluted share for the six months ended June 30, 2004. See Note 19 to the consolidated financial statements for further discussion of discontinued operations. Income from continuing operations was $24.7 million for the three months ended June 30, 2005, compared to $1.3 million for the three months ended June 30, 2004. Income from continuing operations was $40.3 million for the six months ended June 30, 2005, compared to $22.5 million for the six months ended June 30, 2004.

Operating results for both the three and six months ended June 30, 2005, were favorably impacted by a reduction in noninterest expense, primarily professional fees and salary expense, and a reduction in the provision for loan losses. Operating results for the six months ended June 30, 2005, were favorably impacted by a $5.2 million increase in

gains on derivatives. Noninterest expense decreased $27.9 million and $35.7 million, respectively, for the three and six months ended June 30, 2005 compared to June 30, 2004. This decrease is primarily the result of $25.1 million of expenses related to Ascend and to severance payments to three senior executives who left Old National during the first quarter of 2004. In addition, recent corporate initiatives have reduced salary expense during 2005 despite the inclusion of $1.2 million of personnel expense associated with the recent acquisition of J. W. F. Insurance Companies. These positive factors were offset by decreases in net interest income and mortgage banking revenue as a result of weak loan demand during 2004 and into 2005, more stringent loan underwriting standards, and loan sales.

For the three months ended June 30, 2005, Old National s return on average assets was 1.16% and return on shareholders equity was 14.56%, compared to 0.10% and 1.30%, respectively, for the three months ended June 30, 2004. Old National s return on average assets for the six months ended June 30, 2005, was 0.91% and return on shareholders equity was 11.39%, compared to return on average assets of 0.53% and return on shareholders equity of 6.74% for the six months ended June 30, 2004. Results in 2004 were impacted by nonrecurring expenses related to Ascend .

Net Interest Income

Net interest income is Old National s most significant component of earnings, comprising over 58% of revenues at June 30, 2005. 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 accelerated prepayments of mortgage-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 Old National s ability to optimize its mix of assets and funding and its net interest income and margin.

Net interest income and net interest margin in the following discussion are presented on a fully taxable equivalent basis, which adjusts tax-exempt or nontaxable interest income to an amount that would be comparable to interest subject to income taxes using the federal statutory tax rate of 35% in effect for all periods. Net income is unaffected by these taxable equivalent adjustments as the offsetting increase of the same amount is made in the income tax section. Net interest income included taxable equivalent adjustments of $5.5 million and $6.0 million for the three months ended June 30, 2005 and 2004, respectively. Taxable equivalent adjustments for the six months ended June 30, 2005 and 2004, were $11.1 million and $12.1 million, respectively.

Taxable equivalent net interest income was $60.2 million and $121.0 million for the three and six months ended June 30, 2005, respectively, down from the $66.1 million and $132.2 reported for the three and six months ended June 30, 2004, respectively. The net interest margin was 3.07% and 3.06% for the three and six months ended June 30, 2005, respectively, compared to 3.13% and 3.13% reported for the three and six months ended June 30, 2004, respectively. The reduction in both net interest income and net interest margin is a reflection of the increase in the cost of funding being greater than the increase in earning asset yields.

Average earning assets were $7.841 billion for the three months ended June 30, 2005, compared to $8.435 billion for the three months ended June 30, 2004, a decrease of 7.0%, or $594.4 million. Average earning assets were $7.901 billion for the six months ended June 30, 2005, compared to $8.448 billion for the six months ended June 30, 2004, a decrease of 6.5%, or $547.6 million. Significantly affecting average earning assets at June 30, 2005 compared to June 30, 2004, was the planned reduction to the investment portfolio. Also significantly affecting average earning assets was the sale of $405.6 million of residential real estate loans at June 30, 2004. In addition, during 2004 and through March 31, 2005, average commercial and commercial real estate loans declined as a result of weak loan demand in Old National s markets, more stringent loan underwriting standards and loan sales. Sales of commercial and commercial real estate loans included $26.7 million of nonaccrual and substandard commercial and commercial real estate loans during the quarter ended June 30, 2005, and $43.1million during the quarter ended December 31, 2004.

Provision for Loan Losses

The provision for loan losses was $6.0 million and $11.1 million for the three and six months ended June 30, 2005, respectively, compared to $7.5 million and $15.0 million for the three and six months ended June 30, 2004, respectively. The lower provisions in 2005 are attributable to enhanced credit administration and underwriting

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functions that began in 2004 and decreases in total criticized and classified loans during the twelve months ended June 30, 2005. Refer to Allowance for Loan Losses and Asset Quality section for further discussion of non-performing loans, charge-offs and additional items impacting the provision.

Noninterest Income

Old National generates revenues in the form of noninterest income through client fees and sales commissions from its core banking franchise and other related businesses, such as wealth management, investment products and insurance. Noninterest income for the three months ended June 30, 2005, was $46.2 million, an increase of $13.2 million, or 40.1% from the $33.0 million reported for the three months ended June 30, 2004. For the six months ended June 30, 2005, noninterest income was $79.2 million, a decrease of $0.6 million, or 0.7% from the $79.8 million reported for the six months ended June 30, 2004.

Net securities gains increased by $1.0 million for the three months ended June 30, 2005 compared to June 30, 2004, and decreased by $1.5 million for the six months ended June 30, 2005 compared to June 30, 2004. Derivatives gains increased by $17.4 million for the three months ended June 30, 2005 compared to June 30, 2004, and increased by $5.2 million for the six months ended June 30, 2005 compared to June 30, 2004. Total noninterest income excluding net securities and derivatives gains was $37.1 million and $73.4 million for the three and six months ended June 30, 2005, respectively, compared to $42.2 million and $77.7 million for the three and six months ended June 30, 2004, respectively. The decrease in noninterest income excluding securities and derivatives gains was primarily attributable to a decrease in mortgage banking revenue. Mortgage banking revenue was $1.3 million for the three months ended June 30, 2005, compared to $7.1 million for the three months ended June 30, 2004, a $5.9 million decrease. For the six months ended June 30, 2005, mortgage banking revenue was $2.6 million compared to $6.8 million for the six months ended June 30, 2004, a $4.2 million decrease. The decrease is primarily due to the $405.6 million residential real estate loan sale during the second quarter of 2004 that resulted in a $2.7 million gain and the $2.6 million recovery of a mortgage servicing rights valuation allowance.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2005, totaled $63.6 million, a decrease of $27.9 million or 30.5%, from the $91.5 million recorded for the three months ended June 30, 2004. For the six months ended June 30, 2005, noninterest expense was $129.7 million, a decrease of $35.7 million, or 21.6% from the $165.4 million recorded for the six months ended June 30, 2004.

Salaries and benefits, the largest component of noninterest expense, was $38.7 million for the three months ended June 30, 2005, compared to $48.1 million for the three months ended June 30, 2004, a decrease of $9.3 million. For the six months ended June 30, 2005, salaries and benefits amounted to $77.8 million compared to $92.3 million for the six months ended June 30, 2004, a decrease of $14.5 million. Salaries and benefits in 2004 include nonrecurring expenses related to Ascend , including severance costs for employees whose positions were eliminated and expenses related to incentive programs for employees participating in Ascend . Also included in salaries and benefits for the six months ended June 30, 2004, was $2.9 million of severance expense related to three senior executives, including the chief executive officer, who left the company during the first quarter of 2004. Recent corporate Ascend initiatives have reduced salary expense during 2005 despite the inclusion of $1.2 million of personnel expense associated with the recent acquisition of J. W. F. Insurance Companies.

Professional fees totaled $2.0 million for the three months ended June 30, 2005, compared to $16.9 million for the three months June 30, 2004. For the six months ended June 30, 2005, professional fees were $4.1 million compared to $19.9 million for the six months ended June 30, 2004. The decrease in professional fees was primarily attributable to consulting fees paid during 2004 in connection with Ascend .

All other components of noninterest expense totaled $22.9 million for the three months ended June 30, 2005, compared to $26.5 million for the three months ended June 30, 2004. For the six months ended June 30, 2005 and 2004, all other components of noninterest expense totaled $47.8 million and $53.1 million, respectively. Included in the totals for 2005 is a $3.0 million decrease in expense for a reduction in the reserve for unfunded commitments due to a refinement in management s estimates.

Provision for Income Taxes

Old National records a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to Old National s financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes on continuing operations, as a percentage of pre-tax income, was 21.1% for the three months ended June 30, 2005, compared to an income tax provision of 121.0% in the three months ended June 30, 2004. The provision for income taxes on continuing operations, as a percentage of pre-tax income, was 16.7% for the six months ended June 30, 2005, compared to a 15.5% income tax benefit for the six months ended June 30, 2004. The increased effective tax rate for the six month period ended June 30, 2005, resulted from a lower percentage of tax-exempt income to total income compared to the same six month period ended in 2004.

FINANCIAL CONDITION

Overview

Old National s assets at June 30, 2005, were $8.649 billion, a 4.3% decrease compared to June 30, 2004 assets of $9.041 billion, and an annualized decrease of 5.6% compared to December 31, 2004 assets of $8.898 billion. Investments decreased $122.1 million since June 30, 2004, and decreased $374.5 million since December 31, 2004. Loans decreased $88.7 million since June 30, 2004, and increased $53.6 million since December 31, 2004. Total liabilities decreased $422.1 million compared to June 30, 2004, and decreased $247.3 million since December 31, 2004, primarily from a reduction in borrowings. Total shareholders equity increased $29.2 million from June 30, 2004, and decreased $2.5 million from December 31, 2004. The increase in shareholders equity from June 30, 2004 is primarily attributable to the changes in the unrealized gains on investment securities and the issuance of $18.5 million in stock for the acquisition of J. W. F. Insurance Companies. At June 30, 2005, accumulated other comprehensive income, of which the largest component is unrealized gains (losses) on securities, was a net loss of $0.5 million compared to a net loss of $26.3 million at June 30, 2004.

Earning Assets

Old National s earning assets are comprised of loans and loans held for sale, investment securities and money market investments. Earning assets were $7.728 billion at June 30, 2005, a decrease of 5.5% from June 30, 2004, and an annualized decrease of 7.1% since December 31, 2004. Much of the decrease is attributable to decreases in investment securities and money market investments as Old National has reduced its investment portfolio in response to the flattening of the yield curve and the desire to reduce its sensitivity to rising interest rates.

Investment Securities

Old National classifies investment securities primarily as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in the company s funding requirements. Emerging Issues Task Force (EITF) Issue 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, may potentially affect the treatment of investments in an unrealized loss position. Until final guidance is issued by the FASB, it is uncertain whether this EITF Issue will have a material impact on Old National. At June 30, 2005, Old National does not believe any individual unrealized loss on available-for-sale securities represents other-than-temporary impairment. The unrealized losses are primarily attributable to changes in interest rates. Old National has both the intent and ability to hold the securities for a time necessary to recover the amortized cost.

At June 30, 2005, the investment securities portfolio was $2.638 billion compared to $2.760 billion at June 30, 2004, a decrease of $122.1 million or 4.4%. Investment securities decreased $374.5 million at June 30, 2005, compared to December 31, 2004, an annualized decrease of 24.9%. Investment securities represented 34.1% of earning assets at June 30, 2005, compared to 33.8% at June 30, 2004, and 37.6% at December 31, 2004. Old National has reduced the size of the investment portfolio to reduce its sensitivity to rising interest rates.

The investment securities available-for-sale portfolio had net unrealized gains of $0.9 million at June 30, 2005, an increase of $45.3 million compared to net unrealized losses of $44.4 million at June 30, 2004, and a decrease of $8.4 million compared to net unrealized gains of $9.3 million at December 31, 2004. These changes were primarily the result of higher market interest rates and a smaller portfolio of securities available-for-sale at June 30, 2005.

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The investment portfolio had an average life of 4.10 years at June 30, 2005, compared to 5.05 years at June 30, 2004, and 4.41 years at December 31, 2004. The average yields on investment securities, on a taxable equivalent basis, were 4.57% for the three months ended June 30, 2005, compared to 4.57% for the three months ended June 30, 2004, and 4.45% for the three months ended December 31, 2004. Average yields on investment securities, on a taxable equivalent basis, were 4.51%, 4.60% and 4.56% for the six months ended June 30, 2005 and 2004, and for the year ended December 31, 2004, respectively.

Residential Loans Held for Sale

Residential loans held for sale were $53.3 million at June 30, 2005, compared to $26.8 million at June 30, 2004, and compared to $22.5 million at December 31, 2004. Residential loans held for sale are loans that are closed, but not yet sold on the secondary market. The amount of residential loans held for sale on the balance sheet varies depending on the timing of originations and loan sales to the secondary market.

Lending and Loan Administration

Old National has implemented certain credit approval disciplines in order to continue to focus on the reduction of problem and non-performing loans in the portfolio, including a restructuring of the manner in which commercial loans are analyzed and approved. Community-based credit personnel, which now include independent underwriting and analytic support staff, extend credit under guidelines established and administered by Old National s Credit Policy Committee. This committee, which meets quarterly, includes members from both the holding company and the bank, as well as outside directors. The committee monitors credit quality through its review of information such as delinquencies, problem loans and charge-offs and regularly reviews the loan policy to assure it remains appropriate for the current lending environment.

Old National lends primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. As measured by Old National at June 30, 2005, the company had no concentration of loans in any single industry exceeding 10% of its portfolio and had no exposure to foreign borrowers or lesser-developed countries. Old National s policy is to concentrate its lending activity in the geographic market areas it serves, primarily Indiana, Illinois and Kentucky. Old National continues to be affected by weakness in the economy of its principal markets, particularly in its home state of Indiana, which until the three months ended June 30, 2005, has resulted in a decline of commercial loans and tighter credit underwriting standards. During the second quarter of 2005, Old National began to experience growth in commercial loans.

Commercial and Consumer Loans

Commercial and consumer loans are the largest classification within the earning assets of Old National representing 57.9% of earning assets at June 30, 2005, an increase from 55.9% at June 30, 2004, and an increase from 55.0% at December 31, 2004. At June 30, 2005, commercial and commercial real estate loans were $3.243 billion, a decrease of $134.7 million since June 30, 2004, and an increase of $39.0 million since December 31, 2004. These changes include commercial and commercial real estate loan sales of $26.7 million during the three months ended June 30, 2005, and $43.1 million during the three months ended December 31, 2004.

At June 30, 2005, consumer loans, including automobile loans, personal and home equity loans and lines of credit, and student loans, increased $36.1 million or 3.0% compared to June 30, 2004, and increased $25.5 million or, annualized, 4.2% since December 31, 2004, partly due to enhancements to marketing and customer contact programs.

Residential Real Estate Loans

Residential real estate loans, primarily 1-4 family properties, have decreased in significance to the loan portfolio over the past five years due to higher levels of loan sales into the secondary market, primarily to Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. Old National sells the majority of residential real estate loans it originates as a strategy to better manage interest rate risk and liquidity. These loans are sold with loan servicing retained in order to maintain customer relationships and generate noninte