

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)**

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

For the quarterly period ended March 31, 2005

**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

(State or other jurisdiction of
incorporation or organization)

35-1539838

(I.R.S. Employer
Identification No.)

1 Main Street

Evansville, Indiana

(Address of principal executive offices)

47708

(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 No

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 Accelerated filer Non-accelerated filer

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

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 68,321,000 shares outstanding at April 30, 2005.

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FORM 10-Q/A
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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, May 10, 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.

Table of Contents**OLD NATIONAL BANCORP
CONSOLIDATED BALANCE SHEET**

| (dollars and shares in thousands) (unaudited) | March 31, 2005 (restated) | 2004 (restated) | December 31, 2004 (restated) |
|--|--|----------------------------|---|
| Assets | | | |
| Cash and due from banks | \$ 159,516 | \$ 176,022 | \$ 204,678 |
| Money market investments | 39,854 | 15,733 | 12,320 |
| Total cash and cash equivalents | 199,370 | 191,755 | 216,998 |
| Investment securities available-for-sale, at fair value | | | |
| U.S. Treasury | 33,247 | 13,117 | 66,837 |
| U.S. Government-sponsored agencies | 637,601 | 552,228 | 632,473 |
| Mortgage-backed securities | 1,248,491 | 1,298,932 | 1,267,320 |
| States and political subdivisions | 583,051 | 664,264 | 597,631 |
| Other securities | 215,526 | 91,077 | 221,154 |
| Investment securities available-for-sale | 2,717,916 | 2,619,618 | 2,785,415 |
| Investment securities held-to-maturity, at amortized cost (fair value \$165,198, \$205,812 and \$176,166 respectively) | 170,194 | 204,406 | 177,794 |
| Federal Home Loan Bank stock, at cost | 49,556 | 49,502 | 49,542 |
| Residential loans held for sale | 31,685 | 17,895 | 22,484 |
| Loans: | | | |
| Commercial | 1,522,497 | 1,614,516 | 1,550,640 |
| Commercial real estate | 1,639,968 | 1,830,532 | 1,653,122 |
| Residential real estate | 558,219 | 939,156 | 555,423 |
| Consumer credit, net of unearned income | 1,219,655 | 1,175,450 | 1,205,657 |
| Total loans | 4,940,339 | 5,559,654 | 4,964,842 |
| Allowance for loan losses | (86,307) | (100,645) | (85,749) |
| Net loans | 4,854,032 | 5,459,009 | 4,879,093 |
| Premises and equipment, net | 209,655 | 194,262 | 212,787 |
| Goodwill | 100,965 | 129,251 | 129,947 |
| Other intangible assets | 16,526 | 41,113 | 38,868 |
| Mortgage servicing rights | 15,129 | 12,319 | 15,829 |
| Assets held for sale | 57,241 | | |
| Accrued interest receivable and other assets | 370,778 | 348,159 | 369,547 |
| Total assets | \$ 8,793,047 | \$ 9,267,289 | \$ 8,898,304 |
| Liabilities | | | |
| Deposits: | | | |
| Noninterest-bearing demand | \$ 850,571 | \$ 794,502 | \$ 851,218 |
| Interest-bearing: | | | |

| | | | |
|--|---------------------|--------------|--------------|
| NOW | 1,826,861 | 1,587,353 | 1,920,501 |
| Savings | 495,430 | 467,575 | 480,392 |
| Money market | 619,975 | 593,222 | 573,334 |
| Time | 2,577,084 | 2,941,668 | 2,593,264 |
| Total deposits | 6,369,921 | 6,384,320 | 6,418,709 |
| Short-term borrowings | 493,312 | 471,403 | 347,353 |
| Other borrowings | 1,152,263 | 1,521,340 | 1,306,953 |
| Liabilities held for sale | 11,238 | | |
| Accrued expenses and other liabilities | 98,724 | 141,315 | 121,197 |
| Total liabilities | 8,125,458 | 8,518,378 | 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, 68,717, 66,449 and 69,287 shares issued and outstanding, respectively | 68,717 | 66,449 | 69,287 |
| Capital surplus | 614,741 | 578,650 | 630,461 |
| Retained earnings | 1,585 | 68,038 | |
| Accumulated other comprehensive income (loss), net of tax | (17,454) | 35,774 | 4,344 |
| Total shareholders equity | 667,589 | 748,911 | 704,092 |
| Total liabilities and shareholders equity | \$ 8,793,047 | \$ 9,267,289 | \$ 8,898,304 |

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

Table of Contents**OLD NATIONAL BANCORP
CONSOLIDATED STATEMENT OF INCOME**

| | Three Months Ended March 31, | |
|---|---|-------------------|
| | 2005 | 2004 |
| | (restated) | (restated) |
| (dollars in thousands, except per share data) (unaudited) | | |
| Interest Income | | |
| Loans including fees: | | |
| Taxable | \$ 68,580 | \$ 74,382 |
| Nontaxable | 4,062 | 4,367 |
| Investment securities, available-for-sale: | | |
| Taxable | 21,538 | 19,893 |
| Nontaxable | 6,673 | 7,362 |
| Investment securities, held-to-maturity, taxable | 1,786 | 2,097 |
| Money market investments | 129 | 8 |
| Total interest income | 102,768 | 108,109 |
| Interest Expense | | |
| Deposits | 30,849 | 32,269 |
| Short-term borrowings | 2,017 | 990 |
| Other borrowings | 14,705 | 14,772 |
| Total interest expense | 47,571 | 48,031 |
| Net interest income | 55,197 | 60,078 |
| Provision for loan losses | 5,100 | 7,500 |
| Net interest income after provision for loan losses | 50,097 | 52,578 |
| Noninterest Income | | |
| Wealth management fees | 4,875 | 4,922 |
| Service charges on deposit accounts | 11,098 | 10,765 |
| ATM and debit card fees | 2,361 | 1,965 |
| Mortgage banking revenue | 1,377 | (320) |
| Insurance premiums and commissions | 9,051 | 9,207 |
| Investment product fees | 2,583 | 3,185 |
| Bank-owned life insurance | 1,754 | 2,053 |
| Net securities gains (losses) | (520) | 1,985 |
| Gain (loss) on derivatives | (2,872) | 9,289 |
| Other income | 3,272 | 3,718 |
| Total noninterest income | 32,979 | 46,769 |
| Noninterest Expense | | |
| Salaries and employee benefits | 39,038 | 44,225 |
| Occupancy | 5,031 | 4,580 |

| | | |
|--|------------------|-----------|
| Equipment | 3,512 | 3,441 |
| Marketing | 1,912 | 2,286 |
| Outside processing | 5,116 | 4,931 |
| Communication and transportation | 2,521 | 2,866 |
| Professional fees | 2,114 | 3,011 |
| Loan expense | 899 | 1,467 |
| Supplies | 875 | 1,000 |
| Other real estate owned expense | 278 | 1,656 |
| Other expense | 4,781 | 4,385 |
| | | |
| Total noninterest expense | 66,077 | 73,848 |
| | | |
| Income before income taxes and discontinued operations | 16,999 | 25,499 |
| Income tax expense | 1,443 | 4,249 |
| | | |
| Income from continuing operations | 15,556 | 21,250 |
| Income (loss) from discontinued operations, net of tax expense (benefit) of \$(68) and \$610, respectively | (984) | 919 |
| | | |
| Net income | \$ 14,572 | \$ 22,169 |
| | | |
| Basic net income per share from continuing operations | \$ 0.22 | \$ 0.31 |
| Basic net income (loss) per share from discontinued operations | (0.01) | 0.01 |
| Basic net income per share | 0.21 | 0.32 |
| | | |
| Diluted net income per share from continuing operations | \$ 0.22 | \$ 0.31 |
| Diluted net income (loss) per share from discontinued operations | (0.01) | 0.01 |
| Diluted net income per share | 0.21 | 0.32 |
| | | |
| Dividends per common share | \$ 0.19 | \$ 0.18 |

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

Table of Contents**OLD NATIONAL BANCORP
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY**

| (dollars and shares in thousands) (unaudited) | Common Stock | | Capital | Retained | Accumulated Other Comprehensive Income (Loss) | Total Shareholders Equity |
|--|--------------|----------|-----------|-----------|---|---------------------------------|
| | Shares | Amount | Surplus | Earnings | | |
| 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) | | | | 22,169 | | 22,169 |
| Unrealized net securities gains, net of \$15,922 tax | | | | | 21,929 | 21,929 |
| Reclassification adjustment for gains included in net income, net of \$(835) tax | | | | | (1,150) | (1,150) |
| Net unrealized derivative gains on cash flow hedges, net of \$235 tax | | | | | 365 | 365 |
| Reclassification adjustment on cash flow hedges, net of \$31 tax | | | | | 47 | 47 |
| Cash dividends | | | | (12,629) | | (12,629) |
| Stock repurchased | (468) | (468) | (9,613) | | | (10,081) |
| Stock reissued under stock option and stock purchase plans | 342 | 342 | 7,039 | | | 7,381 |
| Balance, March 31, 2004 | 66,449 | \$66,449 | \$578,650 | \$ 68,038 | \$ 35,774 | \$ 748,911 |
| 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) | | | | 14,572 | | 14,572 |
| Unrealized net securities losses, net of \$(16,026) tax | | | | | (23,799) | (23,799) |
| Reclassification adjustment for securities losses included in net income, net of \$209 tax | | | | | 311 | 311 |
| | | | | | 1,756 | 1,756 |

| | | | | | | |
|--|---------------|-----------------|------------------|-----------------|-------------------|-------------------|
| Net unrealized derivative gains on cash flow hedges, net of \$1,135 tax | | | | | | |
| Reclassification adjustment on cash flow hedges, net of \$(42) tax | | | | | (66) | (66) |
| Cash dividends | | | | (12,987) | | (12,987) |
| Stock repurchased | (850) | (850) | (17,542) | | | (18,392) |
| Stock issued under stock option, restricted stock and stock purchase plans | 280 | 280 | 1,822 | | | 2,102 |
| Balance, March 31, 2005 | 68,717 | \$68,717 | \$614,741 | \$ 1,585 | (\$17,454) | \$ 667,589 |

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

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CONSOLIDATED STATEMENT OF CASH FLOWS**

| | Three Months Ended March 31, | |
|---|---|-------------------|
| | 2005 | 2004 |
| (dollars in thousands) (unaudited) | (restated) | (restated) |
| Cash Flows From Operating Activities | | |
| Net income | \$ 14,572 | \$ 22,169 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 3,872 | 3,229 |
| Amortization of other intangible assets and goodwill impairment | 3,561 | 799 |
| Net premium amortization on investment securities | 905 | 1,565 |
| Amortization of unearned stock compensation | 492 | |
| Provision for loan losses | 5,100 | 7,500 |
| Net securities (gains) losses | 520 | (1,985) |
| (Gain) loss on derivatives | 2,872 | (9,289) |
| Net gains on sales and write-downs of loans and other assets | (1,167) | (1,362) |
| Residential real estate loans originated for sale | (78,115) | (83,911) |
| Proceeds from sale of residential real estate loans | 69,299 | 82,857 |
| (Increase) decrease in accrued interest and other assets | (20,156) | 19,394 |
| Increase in accrued expenses and other liabilities | 6,805 | 13,407 |
| Total adjustments | (6,012) | 32,204 |
| Net cash flows provided by operating activities | 8,560 | 54,373 |
| Cash Flows From Investing Activities | | |
| Purchases of investment securities available-for-sale | (80,753) | (388,541) |
| Proceeds from maturities, prepayments and calls of investment securities available-for-sale | 73,798 | 254,910 |
| Proceeds from sales of investment securities available-for-sale | 33,881 | 207,394 |
| Proceeds from maturities, prepayments and calls of investment securities held-to-maturity | 7,418 | 6,242 |
| Net principal collected from customers | 19,961 | 6,992 |
| Proceeds from sale of premises and equipment and other assets | 924 | 806 |
| Purchase of premises and equipment | (1,716) | (16,261) |
| Net cash flows provided by investing activities | 53,513 | 71,542 |
| Cash Flows From Financing Activities | | |
| Net increase (decrease) in deposits and short-term borrowings: | | |
| Noninterest-bearing demand deposits | (647) | (28,644) |
| Savings, NOW and money market deposits | (31,961) | (13,599) |
| Time deposits | (16,180) | (68,276) |
| Short-term borrowings | 145,959 | 56,815 |
| Payments for maturities on other borrowings | (147,103) | (156,559) |

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| | | |
|---|-------------------|------------|
| Proceeds from issuance of other borrowings | | 54,543 |
| Cash dividends paid | (12,987) | (12,629) |
| Common stock repurchased | (18,392) | (10,081) |
| Common stock issued under stock option, restricted stock and stock purchase plans | 1,610 | 7,381 |
| Net cash flows used in financing activities | (79,701) | (171,049) |
| Net decrease in cash and cash equivalents | (17,628) | (45,134) |
| Cash and cash equivalents at beginning of period | 216,998 | 236,889 |
| Cash and cash equivalents at end of period | \$ 199,370 | \$ 191,755 |

| | | |
|---------------------|------------------|-----------|
| Total interest paid | \$ 41,916 | \$ 42,051 |
| Total taxes paid | \$ 400 | \$ |

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

Table of Contents**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 March 31, 2005 and 2004, and December 31, 2004, and the results of its operations for the three months ended March 31, 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 ended March 31, 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.

Table of Contents**CONSOLIDATED BALANCE SHEETS:**

| (dollars in thousands) | As of March 31, 2005 | |
|--|------------------------------|----------------|
| | As Previously Reported | As Restated |
| Total assets | \$ 8,793,047 | \$ 8,793,047 |
| Interest bearing deposits | 5,511,092 | 5,519,350 |
| Other borrowings | 1,155,595 | 1,152,263 |
| Accrued expenses and other liabilities | 100,650 | 98,724 |
| Total liabilities | 8,122,458 | 8,125,458 |
| Capital surplus | 613,857 | 614,741 |
| Retained earnings | 5,469 | 1,585 |
| Total shareholders' equity | 670,589 | 667,589 |
| Total liabilities and shareholders' equity | \$ 8,793,047 | \$ 8,793,047 |

CONSOLIDATED STATEMENTS OF INCOME:

| (dollars in thousands) | For the Three Months Ended March 31, | | | |
|--|--------------------------------------|----------------|------------------------------|----------------|
| | 2005 | | 2004 | |
| | As Previously Reported | As Restated | As Previously Reported | As Restated |
| Interest on deposits | \$ 29,010 | \$ 30,849 | \$ 29,365 | \$ 32,269 |
| Interest on other borrowings | 13,103 | 14,705 | 12,655 | 14,772 |
| Total interest expense | 44,130 | 47,571 | 43,010 | 48,031 |
| Net interest income | 58,638 | 55,197 | 65,099 | 60,078 |
| Net interest income after provision for loan losses | 53,538 | 50,097 | 57,599 | 52,578 |
| Gain (loss) on derivatives | | (2,872) | | 9,289 |
| Total noninterest income | 36,005 | 32,979 | 37,660 | 46,769 |
| Income before income taxes and discontinued operations | 23,187 | 16,999 | 21,257 | 25,499 |
| Income tax expense | 3,747 | 1,443 | 2,667 | 4,249 |
| Income from continuing operations | 19,440 | 15,556 | 18,590 | 21,250 |
| Income (loss) from discontinued operations | (984) | (984) | 919 | 919 |
| Net income | \$ 18,456 | \$ 14,572 | \$ 19,509 | \$ 22,169 |
| Per common share: | | | | |
| Basic | \$ 0.27 | \$ 0.21 | \$ 0.28 | \$ 0.32 |
| Diluted | 0.27 | 0.21 | 0.28 | 0.32 |

Certain reclassifications were made to previously reported balances in order to be consistent with current presentation. Also affected by the restatements were Notes 1, 3, 5, 10, 12, 13, 14 and 17 to the consolidated financial statements.

Table of Contents**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 March 31, 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. 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.

| (dollars in thousands, except per share data) | Three Months Ended March 31, | |
|---|---|-------------|
| | 2005 | 2004 |
| Net income as reported | \$ 14,572 | \$ 22,169 |
| Restricted Stock: | | |
| Add: restricted stock compensation expense included in reported net income, net of related tax effects | 320 | |
| Deduct: restricted stock compensation expense determined under fair value based method for all awards, net of related tax effects | (483) | |
| Stock Options: | | |
| Deduct: stock option compensation expense determined under fair value based method for all awards, net of related tax effects | (1,326) | (1,663) |
| Proforma net income | \$ 13,083 | \$ 20,506 |
| Basic net income per share: | | |
| As reported | \$ 0.21 | \$ 0.32 |
| Proforma | 0.19 | 0.29 |
| Diluted net income per share: | | |
| As reported | \$ 0.21 | \$ 0.32 |
| Proforma | 0.19 | 0.29 |

In March 2004, the Emerging Issues Task Force (EITF), a unit of the FASB, reached a consensus on EITF Issue 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. This EITF Issue provides guidance on evaluating when securities losses should be deemed other-than-temporary and, consequently, written down through earnings. In November 2003, a consensus was reached on the section of this EITF Issue that mandates certain disclosures in annual financial statements for all investments in an unrealized loss position for which other-than-temporary impairments have not been recognized. The recognition and measurement guidance of this EITF Issue was effective for reporting periods beginning after June 15, 2004, and the disclosure requirements were effective for annual financial statements for fiscal years ending after December 15, 2003. On September 30, 2004, the FASB issued a Final FASB Staff Position that delayed the effective date for the measurement and recognition guidance included in this EITF Issue to enable the FASB to issue implementation guidance. Until such guidance is finalized, it is uncertain whether this EITF Issue will have a material impact on Old National.

Table of Contents**NOTE 4 ACQUISITIONS**

Subsequent to the quarter ended March 31, 2005, Old National completed the purchase of J. W. F. Insurance Companies, an Indianapolis, Indiana-based insurance agency that does business as J.W. Flynn Company and J.W.F. Specialty Company, Inc. The transaction occurred on May 1, 2005 with a purchase price of \$18.5 million plus acquisition costs. Common shares of 968,271 were issued as part of the transaction. On the date of acquisition, unaudited financial statements of the companies showed assets of \$5.6 million with year-to-date revenues of \$4.6 million and net loss of \$0.2 million.

NOTE 5 NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during each year, adjusted to reflect all stock dividends. Diluted net income per share is computed as above and assumes the conversion of outstanding stock options and restricted stock. Restricted stock shares were antidilutive at March 31, 2005 for purposes of calculating diluted net income per share in the following table. The following table reconciles basic and diluted net income per share for the three months ended March 31:

| (dollars and shares in thousands, except per share data) | Three Months Ended March 31, 2005 | | | Three Months Ended March 31, 2004 | | |
|---|--------------------------------------|--------|---------|--------------------------------------|--------|---------|
| | Income | Shares | Amount | Income | Shares | Amount |
| Basic Net Income Per Share | | | | | | |
| Income from continuing operations | \$ 15,556 | 68,589 | \$ 0.22 | \$ 21,250 | 69,677 | \$ 0.31 |
| Income (loss) from discontinued operations | (984) | | (0.01) | 919 | | 0.01 |
| Income from operations | \$ 14,572 | 68,589 | \$ 0.21 | \$ 22,169 | 69,677 | \$ 0.32 |
| Diluted Net Income Per Share | | | | | | |
| Income from continuing operations | \$ 15,556 | 68,589 | \$ 0.22 | \$ 21,250 | 69,677 | \$ 0.31 |
| Effect of dilutive securities: Stock options | | 198 | | | 106 | |
| Income from continuing operations and assumed conversions | \$ 15,556 | 68,787 | \$ 0.22 | \$ 21,250 | 69,783 | \$ 0.31 |
| Income (loss) from discontinued operations | (984) | | (0.01) | 919 | | 0.01 |
| Income from operations and assumed conversions | \$ 14,572 | 68,787 | \$ 0.21 | \$ 22,169 | 69,783 | \$ 0.32 |

NOTE 6 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at March 31 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 | \$ 2,747,947 | \$ 31,310 | \$ (61,341) | \$ 2,717,916 |
| Held-to-maturity | 170,194 | | (4,996) | 165,198 |

2004

| | | | | |
|--------------------|--------------|-----------|------------|--------------|
| Available-for-sale | \$ 2,560,004 | \$ 68,873 | \$ (9,259) | \$ 2,619,618 |
| Held-to-maturity | 204,406 | 1,406 | | 205,812 |

At March 31, 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 the U.S. Government or its 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.

Table of Contents**NOTE 7 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 | | 1,381 |
| Additions: | | |
| Provision charged to expense | 5,100 | 7,500 |
| Deductions: | | |
| Loans charged-off | 6,364 | 5,652 |
| Recoveries | (1,822) | (2,181) |
| Net charge-offs | 4,542 | 3,471 |
| Balance, March 31 | \$ 86,307 | \$ 100,645 |

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 March 31:

| (dollars in thousands) | 2005 | 2004 |
|---|------------------|-------------|
| Impaired loans without a valuation allowance | \$ 10,793 | \$ 22,137 |
| Impaired loans with a valuation allowance | 34,915 | 71,913 |
| Total impaired loans | \$ 45,708 | \$ 94,050 |
| Valuation allowance related to impaired loans | \$ 14,495 | \$ 27,475 |

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. For the three months ended March 31, 2005, the average balance of impaired loans was \$44.7 million for which no interest was recorded. For the three months ended March 31, 2004, the average balance of impaired loans was \$92.8 million for which \$0.1 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 8 GOODWILL AND OTHER INTANGIBLE ASSETS

At March 31, 2005 and 2004, Old National had goodwill in the amount of \$101.0 million and \$129.3 million, respectively. During the three months ended March 31, 2005, Old National reclassified specific non-strategic assets as assets 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.

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The change in the carrying amount of goodwill by segment for the three months ended March 31, 2005, was as follows:

| (dollars in thousands) | Community Banking | Other | Total |
|--|------------------------------|--------------|--------------|
| Balance, January 1, 2005 | \$ 70,944 | \$ 59,003 | \$ 129,947 |
| Goodwill transferred to assets held for sale | | (26,082) | (26,082) |
| Goodwill impairment | | (2,900) | (2,900) |
| Balance, March 31, 2005 | \$ 70,944 | \$ 30,021 | \$ 100,965 |

At March 31, 2005 and 2004, Old National had \$16.5 million and \$41.1 million, respectively, in unamortized intangible assets. During the three months ended March 31, 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.

The following table shows the gross carrying amounts and accumulated amortization for other intangible assets as of March 31:

| (dollars in thousands) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|-----------------------------------|--------------------------------------|-------------------------------------|------------------------------------|
| 2005 | | | |
| Amortized intangible assets: | | | |
| Core deposit | \$ 5,574 | \$ (3,778) | \$ 1,796 |
| Customer business relationships | 17,025 | (2,295) | 14,730 |
| Total intangible assets | \$ 22,599 | \$ (6,073) | \$ 16,526 |
| 2004 | | | |
| Amortized intangible assets: | | | |
| Core deposit | \$ 5,574 | \$ (3,198) | \$ 2,376 |
| Customer business relationships | 36,676 | (2,544) | 34,132 |
| Non-compete agreements | 1,100 | (96) | 1,004 |
| Technology | 1,300 | (499) | 801 |
| Total amortized intangible assets | 44,650 | (6,337) | 38,313 |
| Unamortized intangible assets: | | | |
| Trade name | 2,800 | | 2,800 |
| Total intangible assets | \$ 47,450 | \$ (6,337) | \$ 41,113 |

Total amortization expense associated with other intangible assets for the three months ended March 31, was \$661 thousand in 2005 and \$799 thousand in 2004. The following is the estimated amortization expense for the future years ending:

(dollars in thousands)

| | |
|----------------|-----------|
| 2005 remaining | \$ 1,285 |
| 2006 | 1,584 |
| 2007 | 1,283 |
| 2008 | 1,214 |
| 2009 | 1,146 |
| Thereafter | 10,014 |
| Total | \$ 16,526 |

Table of Contents**NOTE 9 MORTGAGE SERVICING RIGHTS**

Mortgage servicing rights derived from loans sold with servicing retained were \$15.1 million and \$12.3 million at March 31, 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 March 31 was \$1.949 billion in 2005 and \$1.737 billion in 2004. At March 31, 2005 and 2004, the fair value of capitalized mortgage servicing rights was \$20.4 million and \$12.4 million, respectively. Old National's key economic assumptions used in determining the fair value of mortgage servicing rights were a weighted average prepayment rate of 232 PSA and a discount rate of 9.10% at March 31, 2005, and a weighted average prepayment rate of 436 PSA and a discount rate of 8.50% at March 31, 2004.

The following summarizes the activities related to mortgage servicing rights and the related valuation allowance at March 31:

| (dollars in thousands) | 2005 | 2004 |
|---|------------------|-------------|
| Balance before valuation allowance, January 1 | \$ 15,829 | \$ 15,790 |
| Rights capitalized | 688 | 830 |
| Amortization | (1,388) | (1,725) |
| Balance before valuation allowance, March 31 | 15,129 | 14,895 |
| Valuation allowance: | | |
| Balance, January 1 | | (1,131) |
| Additions to valuation allowance | | (1,940) |
| Reductions to valuation allowance | | 495 |
| Balance, March 31 | | (2,576) |
| Mortgage servicing rights, net | \$ 15,129 | \$ 12,319 |

Table of Contents**NOTE 10 FINANCING ACTIVITIES**

The following table summarizes Old National's other borrowings at March 31:

| (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 |
| Junior subordinated debentures (fixed rates 8.00% to 9.50%) maturities March 2030 to April 2032 | 150,000 | 150,000 |
| SFAS 133 fair value hedge and other basis adjustments | (5,196) | (446) |
| Old National Bank: | | |
| Securities sold under agreements to repurchase (fixed rates 2.05% to 3.08% and variable rates 1.70% to 3.61%) maturities January 2007 to December 2009 | 198,000 | 298,000 |
| Federal Home Loan Bank advances (fixed rates 4.28% to 8.34%) maturities June 2005 to October 2022 | 434,741 | 608,788 |
| Senior unsecured bank notes (fixed rate 3.95% and variable rates 3.02% to 3.38%) maturities May 2005 to February 2008 | 115,000 | 190,000 |
| Subordinated bank notes (fixed rate 6.75%) maturing October 2011 | 150,000 | 150,000 |
| Capital lease obligation | 4,515 | 4,543 |
| SFAS 133 fair value hedge and other basis adjustments | (4,797) | 7,255 |
| Total other borrowings | \$ 1,152,263 | \$ 1,521,340 |

Contractual maturities of other borrowings at March 31, 2005, were as follows:

| (dollars in thousands) | |
|---|--------------|
| Due in 2005 | \$ 95,075 |
| Due in 2006 | 78,361 |
| Due in 2007 | 110,034 |
| Due in 2008 | 343,037 |
| Due in 2009 | 76,040 |
| Thereafter | 459,709 |
| SFAS 133 fair value hedge and other basis adjustments | (9,993) |
| Total | \$ 1,152,263 |

FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances had weighted-average rates of 5.71% and 5.24% at March 31, 2005 and 2004, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 145% 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.

Table of Contents**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.

Old National guarantees the payment of distributions on the trust preferred securities issued by ONB Capital Trust I. ONB Capital Trust I issued \$50 million in preferred securities in March 2000. The preferred securities have a liquidation amount of \$25 per share with a cumulative annual distribution rate of 9.5% or \$2.375 per share payable quarterly and maturing on March 15, 2030. 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. 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 March 15, 2005, 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 the trust preferred securities totaling \$1.8 million in 2000, 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.

Subsequent to March 31, 2005, Old National called for the redemption of the \$50 million of junior subordinated debentures issued in March 2000, thereby causing a redemption of all of the ONB Capital Trust I, 9.5% trust preferred securities effective May 23, 2005. In connection with this redemption, Old National will expense 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.

At March 31, 2005, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)

| | |
|------------------------------------|--------|
| 2005 remaining | \$ 278 |
| 2006 | 371 |
| 2007 | 371 |
| 2008 | 371 |
| 2009 | 390 |
| Thereafter | 12,874 |
| Total minimum lease payments | 14,655 |
| Less amounts representing interest | 10,140 |

Present value of net minimum lease payments

\$ 4,515

Table of Contents**NOTE 11 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 three months ended March 31:

| (dollars in thousands) | Three Months Ended March 31, | |
|------------------------------------|---|-------------|
| | 2005 | 2004 |
| Service cost | \$ 518 | \$ 537 |
| Interest cost | 893 | 975 |
| Expected return on plan assets | (908) | (851) |
| Amortization of prior service cost | 8 | 8 |
| Amortization of transitional asset | | (108) |
| Recognized actuarial loss | 408 | 397 |
| Net periodic benefit cost | \$ 919 | \$ 958 |

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 March 31, 2005, 6.6 million shares were outstanding under the plan, including 6.1 million stock options and 0.5 million shares of restricted stock as described below, and 1.0 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 March 31, 2005, Old National had 6.1 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.

At March 31, 2005, the shares issued have an estimated value of \$9.5 million based on the stock price on that date. The expense recognized during the quarter ended March 31, 2005, related to the vesting of these awards was \$0.5 million. The remaining \$7.9 million of deferred compensation is included as a component of capital surplus.

Table of Contents**NOTE 12 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 ended March 31:

| (dollars in thousands) | 2005 | 2004 |
|------------------------------------|-----------------|-------------|
| Provision at statutory rate of 35% | \$ 5,950 | \$ 8,925 |
| Tax-exempt income | (4,340) | (4,805) |
| Other, net | (167) | 129 |
| Income tax expense | \$ 1,443 | \$ 4,249 |
| Effective tax rate | 8.5% | 16.7% |

For the three months ended March 31, 2005, the effective tax rate was lower than for the same period of last year. The decreased effective tax rate for the quarter ended March 31, 2005 resulted from a higher percentage of tax-exempt income to total income compared to the quarter ended March 31, 2004.

NOTE 13 COMPREHENSIVE INCOME

| (dollars in thousands) | Three Months Ended March 31, | |
|--|---|-------------|
| | 2005 | 2004 |
| Net income: | \$ 14,572 | \$ 22,169 |
| Unrealized gains (losses) on securities: | | |
| Unrealized holding gains (losses) arising during the period, net of tax | (23,799) | 21,929 |
| Less: reclassification adjustment for securities (gains) losses realized in net income, net of tax | 311 | (1,150) |
| Cash flow hedges: | | |
| Net unrealized derivative gains on cash flow hedges, net of tax | 1,756 | 365 |
| Less: reclassification adjustment on cash flow hedges, net of tax | (66) | 47 |
| Net unrealized gains (losses) | (21,798) | 21,191 |
| Comprehensive income (loss) | \$ (7,226) | \$ 43,360 |

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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 March 31:

| (dollars in thousands) | Notional Amount | 2005 Estimated Fair Value | | Notional Amount | 2004 Estimated Fair Value | |
|--|---------------------|---------------------------------|--------------------|---------------------|---------------------------------|-------------------|
| | | Gain | Loss | | Gain | Loss |
| Fair Value Hedges | | | | | | |
| Receive fixed interest rate swaps | \$ 748,313 | \$ 60 | \$ (19,683) | \$ 545,096 | \$ 7,322 | \$ (3,744) |
| Pay fixed interest rate swaps | 20,000 | 180 | (3) | | | |
| Forward mortgage loan contracts | 8,745 | 163 | | 2,642 | | (16) |
| Cash Flow Hedges | | | | | | |
| HELOC cash flow | 100,000 | | (1,244) | 100,000 | 2,073 | |
| Pay fixed interest rate swaps | 50,000 | 504 | | 150,000 | 109 | (468) |
| Anticipated floating rate debt | 195,000 | 1,942 | (29) | | | |
| Stand Alone Hedges | | | | | | |
| Receive fixed interest rate swaps | 456,000 | 3,332 | (8,420) | 523,000 | 14,796 | (2,133) |
| Interest rate lock commitments | 36,234 | 24 | | 65,535 | 230 | |
| Forward mortgage loan contracts | 50,860 | 282 | | 69,786 | | (65) |
| Options on contracts purchased | | | | 4,000 | | |
| Matched Customer Hedges | | | | | | |
| Customer interest rate swaps | 101,904 | 478 | (1,016) | 44,523 | 1,097 | (69) |
| Customer interest rate swaps with counterparty | 101,904 | 1,012 | (474) | 44,523 | 69 | (1,097) |
| Customer interest rate cap | 2,300 | | (21) | 15,300 | | (53) |
| Customer interest rate cap with counterparty | 2,300 | 21 | | 15,300 | 53 | |
| Total | \$ 1,873,560 | \$ 7,998 | \$ (30,890) | \$ 1,579,705 | \$ 25,749 | \$ (7,645) |

**NOTE 15 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. No appeal has been filed from that summary judgement order.

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. The approximate \$0.9 million remaining in

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the reserve for litigation settlement is deemed at this time 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 recently affirmed the decision of the trial court for these cases filed in Cook County, Illinois. It is not expected that 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 \$1.235 billion, commercial letters of credit of \$21.2 million and standby letters of credit of \$121.9 million at March 31, 2005. At March 31, 2004, loan commitments were \$1.520 billion, commercial letters of credit were \$19.6 million and standby letters of credit were \$96.1 million. These commitments are not reflected in the consolidated financial statements. No material losses are expected to result from these transactions. At March 31, 2005 and 2004, Old National had credit extensions of \$93.4 million and \$72.4 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients. At March 31, 2005 and 2004, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling \$62.7 million and \$41.0 million, respectively. Old National did not provide collateral for the remaining credit extensions.

NOTE 16 FINANCIAL GUARANTEES

Old National holds instruments, in the normal course of business with clients that are considered financial guarantees in accordance with FIN 45, Guarantors 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 March 31, 2005, the notional amount of standby letters of credit was \$121.9 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.4 million. Old National also enters into forward contracts for the future delivery of conforming residential real estate loans at a specified interest rate to reduce interest rate risk associated with loans held for sale. These forward contracts are considered derivative instruments accounted for under SFAS No. 133. See additional information in Note 14.

NOTE 17 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.

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

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

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

| (dollars in thousands) | Community Banking | Treasury | Other | Total |
|---|------------------------------|-----------------|--------------|--------------|
| 2005 | | | | |
| Net interest income | \$ 65,801 | \$ (7,236) | \$ (3,368) | \$ 55,197 |
| Provision for loan losses | 5,079 | 21 | | 5,100 |
| Noninterest income | 17,383 | (1,086) | 16,682 | 32,979 |
| Noninterest expense | 54,127 | 747 | 11,203 | 66,077 |
| Income (loss) before income taxes and discontinued operations | 23,978 | (9,090) | 2,111 | 16,999 |
| Income tax expense (benefit) | 6,349 | (5,590) | 684 | 1,443 |
| Loss from discontinued operations, net of income tax benefit | | | (984) | (984) |
| Segment profit | 17,629 | (3,500) | 443 | 14,572 |
| Total assets | 5,161,309 | 3,370,095 | 261,643 | 8,793,047 |
| 2004 | | | | |
| | | | & | |