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 September 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** (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 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 Exchange 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 67,739,000 shares outstanding at October 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, November 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)	September 30, 2005 (restated)	2004 (restated)	December 31, 2004 (restated)
Assets			
Cash and due from banks	**$ 199,210**	$ 205,495	$ 204,678
Money market investments	**20,709**	163,098	12,320
Total cash and cash equivalents	**219,919**	368,593	216,998
Investment securities available-for-sale, at fair value			
U.S. Treasury		67,195	66,837
U.S. Government-sponsored agencies	**435,130**	633,713	632,473
Mortgage-backed securities	**1,175,112**	1,191,735	1,267,320
States and political subdivisions	**485,165**	631,893	597,631
Other securities	**204,627**	96,506	221,154
Investment securities available-for-sale	**2,300,034**	2,621,042	2,785,415
Investment securities held-to-maturity, at amortized cost (fair value $172,616, $184,426 and $176,166 respectively)	**176,021**	185,392	177,794
Federal Home Loan Bank stock, at cost	**49,589**	49,528	49,542
Residential loans held for sale	**65,986**	22,061	22,484
Loans:			
Commercial	**1,650,628**	1,586,600	1,550,640
Commercial real estate	**1,612,956**	1,713,795	1,653,122
Residential real estate	**531,240**	554,079	555,423
Consumer credit, net of unearned income	**1,297,660**	1,227,196	1,205,657
Total loans	**5,092,484**	5,081,670	4,964,842
Allowance for loan losses	**(81,356)**	(96,322)	(85,749)
Net loans	**5,011,128**	4,985,348	4,879,093
Premises and equipment, net	**211,951**	212,237	212,787
Goodwill	**113,275**	129,947	129,947
Other intangible assets	**23,694**	39,490	38,868
Mortgage servicing rights		16,381	15,829
Accrued interest receivable and other assets	**363,694**	351,696	369,547
Total assets	**$ 8,535,291**	$ 8,981,715	$ 8,898,304
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 872,499**	$ 825,721	$ 851,218
Interest-bearing:			
NOW	**1,614,526**	1,823,368	1,920,501

Savings	**483,928**	470,954	480,392
Money market	**809,568**	581,822	573,334
Time	**2,592,859**	2,709,700	2,593,264
Total deposits	**6,373,380**	6,411,565	6,418,709
Short-term borrowings	**350,999**	338,531	347,353
Other borrowings	**1,033,963**	1,397,997	1,306,953
Accrued expenses and other liabilities	**107,884**	118,607	121,197
Total liabilities	**7,866,226**	8,266,700	8,194,212
Shareholders Equity			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding			
Common stock, $1 stated value, 150,000 shares authorized, 68,010, 65,960 and 69,287 shares issued and outstanding, respectively	**68,010**	65,960	69,287
Capital surplus	**600,294**	567,714	630,461
Retained earnings	**5,399**	66,987	
Accumulated other comprehensive income (loss), net of tax	**(4,638)**	14,354	4,344
Total shareholders equity	**669,065**	715,015	704,092
Total liabilities and shareholders equity	**$ 8,535,291**	$ 8,981,715	$ 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

(dollars in thousands, except per share data) (unaudited)	Three Months Ended September 30, 2005 (restated)	2004 (restated)	Nine Months Ended September 30, 2005 (restated)	2004 (restated)
Interest Income				
Loans including fees:				
Taxable	**$ 75,770**	$ 68,260	**$ 215,995**	$ 215,333
Nontaxable	**4,476**	4,203	**12,846**	12,894
Investment securities, available-for-sale:				
Taxable	**19,753**	19,082	**61,850**	57,969
Nontaxable	**5,699**	7,275	**18,776**	21,978
Investment securities, held-to-maturity, taxable	**1,953**	1,944	**5,576**	6,028
Money market investments	**260**	697	**642**	769
Total interest income	**107,911**	101,461	**315,685**	314,971
Interest Expense				
Deposits	**35,848**	29,584	**99,944**	91,813
Short-term borrowings	**2,657**	704	**7,340**	2,757
Other borrowings	**13,740**	14,866	**42,857**	44,017
Total interest expense	**52,245**	45,154	**150,141**	138,587
Net interest income	**55,666**	56,307	**165,544**	176,384
Provision for loan losses	**6,000**	7,400	**17,100**	22,400
Net interest income after provision for loan losses	**49,666**	48,907	**148,444**	153,984
Noninterest Income				
Wealth management fees	**5,041**	4,942	**15,551**	15,139
Service charges on deposit accounts	**12,529**	12,622	**35,692**	35,773
ATM and debit card fees	**2,568**	2,265	**7,470**	6,420
Mortgage banking revenue	**1,756**	246	**4,400**	7,065
Insurance premiums and commissions	**8,466**	7,355	**26,611**	24,764
Investment product fees	**2,246**	2,547	**7,145**	9,507
Bank-owned life insurance	**1,922**	1,787	**5,417**	5,622
Net securities gains	**652**	303	**1,175**	2,309
Gain (loss) on derivatives	**(4,632)**	10,451	**645**	10,497
Other income	**3,608**	2,872	**9,271**	8,076
Total noninterest income	**34,156**	45,390	**113,377**	125,172
Noninterest Expense				
Salaries and employee benefits	**35,866**	38,294	**113,637**	130,600
Occupancy	**4,591**	4,902	**14,746**	13,865

Equipment	**3,587**	3,635	**10,981**	10,450
Marketing	**1,912**	2,641	**6,050**	6,894
Outside processing	**4,803**	5,059	**14,985**	15,545
Communication	**2,336**	2,551	**7,399**	8,064
Professional fees	**2,291**	3,057	**6,440**	22,983
Loan expense	**1,570**	1,471	**3,889**	4,742
Supplies	**908**	966	**2,854**	2,879
Other real estate owned expense	**216**	269	**621**	2,292
Other expense	**3,618**	6,055	**9,798**	15,955
Total noninterest expense	**61,698**	68,900	**191,400**	234,269
Income before income taxes and discontinued operations	**22,124**	25,397	**70,421**	44,887
Income tax expense	**3,248**	4,003	**11,292**	984
Income from continuing operations	**18,876**	21,394	**59,129**	43,903
Income (loss) from discontinued operations, net of tax expense of $6,302, $287, $6,603 and $1,586, respectively	**(14,383)**	365	**(14,825)**	2,352
Net income	**$ 4,493**	$ 21,759	**$ 44,304**	$ 46,255
Basic net income per share from continuing operations	**$ 0.28**	$ 0.32	**$ 0.87**	$ 0.64
Basic net income (loss) per share from discontinued operations	**(0.21)**		**(0.22)**	0.03
Basic net income per share	**0.07**	0.32	**0.65**	0.67
Diluted net income per share from continuing operations	**$ 0.28**	$ 0.31	**$ 0.87**	$ 0.63
Diluted net income (loss) per share from discontinued operations	**(0.21)**		**(0.22)**	0.03
Diluted net income per share	**0.07**	0.31	**0.65**	0.66
Dividends per common share	**$ 0.19**	$ 0.18	**$ 0.57**	$ 0.54

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)				46,255		46,255
Unrealized net securities gains, net of $1,704 tax					2,667	2,667
Reclassification adjustment for gains included in net income, net of $(961) tax					(1,348)	(1,348)
Net unrealized derivative losses on cash flow hedges, net of $(1,092) tax					(1,689)	(1,689)
Reclassification adjustment on cash flow hedges, net of $93 tax					141	141
Cash dividends				(37,766)		(37,766)
Adjustments to stock issued for prior acquisitions	(3)	(3)	(61)			(64)
Stock repurchased	(1,145)	(1,145)	(25,010)			(26,155)
Stock reissued under stock option, restricted stock and stock purchase plans	533	533	11,561			12,094
Balance, September 30, 2004	65,960	$ 65,960	$ 567,714	$ 66,987	$ 14,354	$ 715,015
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)				**44,304**		**44,304**

Unrealized net securities losses, net of $(5,882) tax					**(8,761)**	**(8,761)**
Reclassification adjustment for securities gains included in net income, net of $(472) tax					**(703)**	**(703)**
Net unrealized derivative gains on cash flow hedges, net of $331 tax					**512**	**512**
Reclassification adjustment on cash flow hedges, net of $(19) tax					**(30)**	**(30)**
Stock issued for acquisitions	**971**	**971**	**17,569**			**18,540**
Cash dividends				**(38,905)**		**(38,905)**
Stock repurchased	**(2,571)**	**(2,571)**	**(52,284)**			**(54,855)**
Stock issued under stock option, restricted stock and stock purchase plans	**323**	**323**	**4,548**			**4,871**
Balance, September 30, 2005	**68,010**	**$ 68,010**	**$ 600,294**	**$ 5,399**	**($4,638)**	**$ 669,065**

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)	Nine Months Ended September 30, 2005 (restated)	2004 (restated)
Cash Flows From Operating Activities		
Net income	**$ 44,304**	$ 46,255
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**11,352**	10,089
Amortization of other intangible assets and goodwill impairment	**5,378**	2,390
Net premium amortization on investment securities	**2,449**	2,197
Amortization of unearned stock compensation	**2,228**	378
Provision for loan losses	**17,100**	22,400
Net securities gains	**(1,175)**	(2,309)
Gain on derivatives	**(645)**	(10,497)
Net (gains) losses on sales and write-downs of loans and other assets	**8,346**	(3,712)
Residential real estate loans originated for sale	**(300,309)**	(268,456)
Proceeds from sale of residential real estate loans	**257,921**	266,204
Increase in accrued interest and other assets	**(8,501)**	(6,669)
Increase in accrued expenses and other liabilities	**10,456**	15,446
Total adjustments	**4,600**	27,461
Net cash flows provided by operating activities	**48,904**	73,716
Cash Flows From Investing Activities		
Cash and cash equivalents of subsidiaries acquired, net	**2,699**	
Purchases of investment securities available-for-sale	**(417,964)**	(747,547)
Purchases of investment securities held-to-maturity	**(25,000)**	
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**277,372**	525,752
Proceeds from sales of investment securities available-for-sale	**609,466**	260,441
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**26,264**	24,811
Proceeds from sale of loans	**21,355**	404,424
Net principal collected from (loans made to) customers	**(170,490)**	61,955
Proceeds from sale of premises and equipment and other assets	**1,169**	4,787
Purchase of premises and equipment	**(11,296)**	(46,006)
Proceeds from sale of other assets	**40,805**	
Net cash flows provided by investing activities	**354,380**	488,617
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Noninterest-bearing demand deposits	**21,281**	2,575

Savings, NOW and money market deposits	**(66,205)**	214,395
Time deposits	**(405)**	(300,244)
Short-term borrowings	**3,646**	(76,057)
Payments for maturities on other borrowings	**(317,563)**	(273,636)
Proceeds from issuance of other borrowings	**50,000**	54,543
Cash dividends paid	**(38,905)**	(37,766)
Common stock repurchased	**(54,855)**	(26,155)
Common stock issued under stock option, restricted stock and stock purchase plans	**2,643**	11,716
Net cash flows used in financing activities	**(400,363)**	(430,629)
Net increase in cash and cash equivalents	**2,921**	131,704
Cash and cash equivalents at beginning of period	**216,998**	236,889
Cash and cash equivalents at end of period	**$ 219,919**	$ 368,593
Total interest paid	**$ 138,906**	$ 123,404
Total taxes paid	**$ 10,262**	$ 11,419

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 September 30, 2005 and 2004, and December 31, 2004, and the results of its operations for the three and nine months ended September 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 nine months ended September 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:

(dollars in thousands)	As of September 30, 2005 As Previously Reported	As Restated
Total assets	$ 8,535,291	$ 8,535,291
Interest bearing deposits	5,492,673	5,500,881
Other borrowings	1,036,093	1,033,963
Accrued expenses and other liabilities	110,226	107,884
Total liabilities	7,862,490	7,866,226
Capital surplus	599,410	600,294
Retained earnings	10,019	5,399
Total shareholders equity	672,801	669,065
Total liabilities and shareholders equity	$ 8,535,291	$ 8,535,291

CONSOLIDATED STATEMENTS OF INCOME:

(dollars in thousands)	For the Three Months Ended September 30, 2005 As Previously Reported	2005 As Restated	2004 As Previously Reported	2004 As Restated
Interest on deposits	$ 34,691	$ 35,848	$ 26,866	$ 29,584
Interest on other borrowings	12,955	13,740	12,903	14,866
Total interest expense	50,303	52,245	40,473	45,154
Net interest income	57,608	55,666	60,988	56,307
Net interest income after provision for loan losses	51,608	49,666	53,588	48,907
Gain (loss) on derivatives		(4,632)		10,451
Total noninterest income	39,268	34,156	35,165	45,390
Income before income taxes and discontinued operations	28,874	22,124	19,659	25,397
Income tax expense	5,774	3,248	1,840	4,003
Income from continuing operations	23,100	18,876	17,819	21,394
Income (loss) from discontinued operations (1)	(15,507)	(14,383)	365	365
Net income	$ 7,593	$ 4,493	$ 18,184	$ 21,759
Per common share:				
Basic net income from continuing operations	$ 0.34	$ 0.28	$ 0.26	$ 0.32
Basic net income from discontinued operations	(0.23)	(0.21)		
Basic net income	0.11	0.07	0.26	0.32
Diluted net income from continuing operations	0.34	0.28	0.26	0.31
Diluted net income from discontinued operations	(0.23)	(0.21)		
Diluted net income	0.11	0.07	0.26	0.31

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 Nine Months Ended September 30,			
	2005		2004	
(dollars in thousands)	As Previously Reported	As Restated	As Previously Reported	As Restated
Interest on deposits	$ 95,421	$ 99,944	$ 83,179	$ 91,813
Interest on other borrowings	39,552	42,857	37,818	44,017
Total interest expense	142,313	150,141	123,754	138,587
Net interest income	173,372	165,544	191,217	176,384
Net interest income after provision for loan losses	156,272	148,444	168,817	153,984
Gain on derivatives		645		10,497
Total noninterest income	113,746	113,377	115,205	125,172
Income before income taxes and discontinued operations	77,759	70,421	49,201	44,887
Income tax expense	14,010	11,292	2,577	984
Income from continuing operations	63,749	59,129	46,624	43,903
Income (loss) from discontinued operations	(14,825)	(14,825)	2,352	2,352
Net income	$ 48,924	$ 44,304	$ 48,976	$ 46,255
Per common share:				
Basic net income from continuing operations	$ 0.93	$ 0.87	$ 0.67	$ 0.64
Basic net income from discontinued operations	(0.22)	(0.22)	0.03	0.03
Basic net income	0.71	0.65	0.70	0.67
Diluted net income from continuing operations	0.93	0.87	0.67	0.63
Diluted net income from discontinued operations	(0.22)	(0.22)	0.03	0.03
Diluted net income	0.71	0.65	0.70	0.66

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, 6, 12, 14, 15, 16 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 delayed the effective date of SFAS No. 123R to annual periods beginning after June 15, 2005.

On October 17, 2005, subsequent to quarter end, the Compensation and Management Development Committee of our Board of Directors approved acceleration of all unvested options granted prior to 2004. Stock options totaling 1.1 million were subject to this acceleration and became immediately vested and exercisable. The decision to accelerate vesting of these options was made primarily to avoid recognizing the related compensation cost in future financial statements upon the effectiveness of SFAS No. 123R. The acceleration eliminates $1.3 million in 2006 and $0.1 million in 2007 of future after-tax compensation expense that would otherwise have been recognized under SFAS No. 123R. These amounts will be reflected when calculating the pro forma net income for disclosure under SFAS No. 123 in the fourth quarter.

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Currently, Old National applies 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.

(dollars in thousands, except per share data)	Three Months Ended September 30, 2005	2004	Nine Months Ended September 30, 2005	2004
Net income as reported	**$ 4,493**	$ 21,759	**$ 44,304**	$ 46,255
Restricted Stock:				
Add: restricted stock compensation expense included in reported net income, net of related tax effects	**511**	245	**1,448**	245
Deduct: restricted stock compensation expense determined under fair value based method for all awards, net of related tax effects	**(551)**	(238)	**(1,621)**	(238)
Stock Options:				
Deduct: stock option compensation expense determined under fair value based method for all awards, net of related tax effects	**(506)**	(779)	**(2,377)**	(3,297)
Proforma net income	**$ 3,947**	$ 20,987	**$ 41,754**	$ 42,965
Basic net income per share:				
As reported	**$ 0.07**	$ 0.32	**$ 0.65**	$ 0.67
Proforma	**0.06**	0.30	**0.61**	0.62
Diluted net income per share:				
As reported	**$ 0.07**	$ 0.31	**$ 0.65**	$ 0.66
Proforma	**0.06**	0.30	**0.61**	0.61

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 are included with the non-bank service companies in the other column of Note 19 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.

NOTE 5 DISCONTINUED OPERATIONS AND DIVESTITURES

In February 2005, Old National committed to a plan to sell selected non-strategic companies, J.W. Terrill Insurance Agency (Terrill) in St. Louis, Missouri, and Fund Evaluation Group (FEG) in Cincinnati, Ohio, to better align its operations with its market and product focus. The operating activities of these companies have been reclassified to discontinued operations for all periods in the consolidated statement of income and are reported in the Other column

for segment reporting.

During the third quarter of 2005, Old National completed the sale of both Terrill and FEG. Old National sold Terrill for $22.2 million of cash. Terrill had been acquired in a tax-free reorganization under Internal Revenue Code section 368, and as a result of the taxable sale, Old National recorded a loss of $8.7 million, including $8.6 million of tax expense. On September 30, 2005, Old National completed the sale of FEG for $15.1 million of cash and a $0.5 million note receivable. The sale resulted in an after tax loss of $5.9 million.

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Results of discontinued operations for the three and nine months ended September 30, 2005 and 2004 are as follows:

(dollars in thousands, except per share data)	Three Months Ended September 30, 2005	2004	Nine Months Ended September 30, 2005	2004
Revenues	**$ 3,407**	$ 7,177	**$ 21,063**	$ 24,232
Net income (loss)	**(14,383)**	365	**(14,825)**	2,352
Diluted net income (loss) per share	**(0.21)**		**(0.22)**	0.03

NOTE 6 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 period, adjusted to reflect all stock dividends. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Restricted stock shares were antidilutive for the nine months ended September 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 nine months ended September 30:

(dollars and shares in thousands, except per share data)	Three Months Ended September 30, 2005 Income	Shares	Amount	Three Months Ended September 30, 2004 Income	Shares	Amount
Basic Net Income Per Share						
Income from continuing operations	**$ 18,876**	**68,011**	**$ 0.28**	$ 21,394	69,353	$ 0.32
Income (loss) from discontinued operations	**(14,383)**		**(0.21)**	365		
Net income	**$ 4,493**	**68,011**	**$ 0.07**	$ 21,759	69,353	$ 0.32
Diluted Net Income Per Share						
Income from continuing operations	**$ 18,876**	**68,011**	**$ 0.28**	$ 21,394	69,353	$ 0.32
Effect of dilutive securities:						
Restricted stock		**10**			43	
Stock options		**310**			671	
Income from continuing operations and assumed conversions	**$ 18,876**	**68,331**	**$ 0.28**	$ 21,394	70,067	$ 0.31
Income (loss) from discontinued operations	**(14,383)**		**(0.21)**	365		
Net income and assumed conversions	**$ 4,493**	**68,331**	**$ 0.07**	$ 21,759	70,067	$ 0.31

(dollars and shares	Nine Months Ended	Nine Months Ended

in thousands, except per share data)	September 30, 2005 Income	Shares	Amount	September 30, 2004 Income	Shares	Amount
Basic Net Income Per Share						
Income from continuing operations	**$ 59,129**	**68,355**	**$ 0.87**	$ 43,903	69,560	$ 0.64
Income (loss) from discontinued operations	**(14,825)**		**(0.22)**	2,352		0.03
Net income	**$ 44,304**	**68,355**	**$ 0.65**	$ 46,255	69,560	$ 0.67
Diluted Net Income Per Share						
Income from continuing operations	**$ 59,129**	**68,355**	**$ 0.87**	$ 43,903	69,560	$ 0.64
Effect of dilutive securities:						
Restricted stock					43	
Stock options		**127**			423	
Income from continuing operations and assumed conversions	**$ 59,129**	**68,482**	**$ 0.87**	$ 43,903	70,026	$ 0.63
Income (loss) from discontinued operations	**(14,825)**		**(0.22)**	2,352		0.03
Net income and assumed conversions	**$ 44,304**	**68,482**	**$ 0.65**	$ 46,255	70,026	$ 0.66

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NOTE 7 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 September 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	**$ 2,306,579**	**$ 26,697**	**$ (33,242)**	**$ 2,300,034**
Held-to-maturity	**176,021**		**(3,405)**	**172,616**
2004				
Available-for-sale	$ 2,595,231	$ 48,587	$ (22,776)	$ 2,621,042
Held-to-maturity	185,392	308	(1,274)	184,426

At September 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 8 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. A portion of 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 September 30, 2005 and 2004, Old National had residential loans held for sale of $66.0 million and $22.1 million, respectively. As of September 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 9 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	**17,100**	22,400
Deductions:		
Write-downs from loans transferred to held for sale	**5,348**	1,177
Loans charged-off	**24,516**	29,417
Recoveries	**(8,371)**	(8,526)
Net charge-offs	**21,493**	22,068

Balance, September 30	**$ 81,356**	$ 96,322

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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 September 30:

(dollars in thousands)	2005	2004
Impaired loans without a valuation allowance	**$ 8,985**	$ 25,393
Impaired loans with a valuation allowance	**35,954**	68,469
Total impaired loans	**$ 44,939**	$ 93,862
Valuation allowance related to impaired loans	**$ 14,202**	$ 26,233

For the nine months ended September 30, 2005, $43.1 million was the average balance of impaired loans for which no interest was recorded. For the nine months ended September 30, 2004, $91.0 million was the average balance of impaired loans for which no 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 10 GOODWILL AND OTHER INTANGIBLE ASSETS

At September 30, 2005 and 2004, Old National had goodwill in the amount of $113.3 million and $129.9 million, respectively. During the quarter ended March 31, 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. In the third quarter of 2005, Old National sold these assets classified as held for sale. See Note 5 Discontinued Operations and Divestitures for additional information.

The change in the carrying amount of goodwill by segment for the nine months ended September 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		**12,038**	**12,038**
Adjustments to goodwill acquired in prior year		**272**	**272**
Goodwill transferred to held for sale		**(26,082)**	**(26,082)**
Goodwill impairment		**(2,900)**	**(2,900)**
Balance, September 30, 2005	**$ 70,944**	**$ 42,331**	**$ 113,275**
Balance, January 1, 2004	70,944	58,307	129,251
Adjustments to goodwill acquired in prior year		696	696
Balance, September 30, 2004	$ 70,944	$ 59,003	$ 129,947

At September 30, 2005 and 2004, Old National had $23.7 million and $39.5 million, respectively, in unamortized intangible assets. During the quarter 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. In the third quarter of 2005, Old National sold these assets classified as held for sale. 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 September 30:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
2005			
Amortized intangible assets:			
Core deposit	**$ 5,574**	**$ (4,050)**	**$ 1,524**
Customer business relationships	**25,411**	**(3,241)**	**22,170**
Total intangible assets	**$ 30,985**	**$ (7,291)**	**$ 23,694**
2004			
Amortized intangible assets:			
Core deposit	$ 5,574	$ (3,499)	$ 2,075
Customer business relationships	36,608	(3,628)	32,980
Non-compete agreements	1,100	(124)	976
Technology	1,300	(641)	659
Total amortized intangible assets	44,582	(7,892)	36,690
Unamortized intangible assets:			
Trade name	2,800		2,800
Total intangible assets	$ 47,382	$ (7,892)	$ 39,490

Total amortization expense associated with other intangible assets for the three months ended September 30 was $0.6 million in 2005 and $0.5 million in 2004. Year-to-date amortization expense as of September 30, 2005 and 2004, was $1.9 million and $1.4 million, respectively.

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

(dollars in thousands)	
2005 remaining	$ 634
2006	2,384
2007	2,011
2008	1,880
2009	1,756
Thereafter	15,029
Total	$ 23,694

NOTE 11 MORTGAGE SERVICING RIGHTS

During the quarter ended September 30, 2005, Old National sold its mortgage servicing rights relating to $1.917 billion of mortgage loans serviced for other investors for a total sales price of $17.7 million. Old National received $3.5 million in cash on the date of sale, and recorded a receivable of $14.2 million which will be received upon completion of the transaction. The transfer of loan servicing is expected to be complete by November 30, 2005. The sale resulted in a pre-tax net gain of $0.4 million which is included in Other Income.

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The activity for mortgage servicing rights and the related valuation allowance for the periods indicated are summarized below:

(dollars in thousands)	2005	2004
Balance before valuation allowance, January 1	**$ 15,829**	$ 15,790
Rights capitalized	**2,505**	5,454
Amortization	**(4,126)**	(4,613)
Sale of mortgage servicing rights	**(14,208)**	
Balance before valuation allowance, September 30		16,631
Valuation allowance:		
Balance, January 1		(1,131)
Additions to valuation allowance		(2,190)
Reductions to valuation allowance		3,071
Balance, September 30		(250)
Mortgage servicing rights, net	**$**	$ 16,381

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 September 30, 2004 was $1.967 billion, and the fair value of capitalized mortgage servicing rights was $17.1 million. Old National s key economic assumptions used in determining the fair value of mortgage servicing rights were a weighted average prepayment rate of 319 PSA and a discount rate of 9.1% at September 30, 2004.

NOTE 12 FINANCING ACTIVITIES

The following table summarizes Old National s other borrowings at September 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**	$ 110,000
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	**(4,955)**	(2,574)
Old National Bank:		
Securities sold under agreements to repurchase (fixed rates 1.70% to 2.75% and variable rate 4.59%) maturities May 2008 to December 2009	**148,000**	248,000
Federal Home Loan Bank advances (fixed rates 4.28% to 8.34%) maturities November 2005 to October 2022	**379,297**	569,924
Senior unsecured bank notes (fixed rate 3.95% and variable rates 4.11% to 4.26%) 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	**4,501**	4,530
SFAS 133 fair value hedge and other basis adjustments	**(2,880)**	3,117
Total other borrowings	**$ 1,033,963**	$ 1,397,997

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

(dollars in thousands)

Due in 2005	$ 25,008
Due in 2006	78,361
Due in 2007	60,034
Due in 2008	343,037
Due in 2009	76,040
Thereafter	459,318
SFAS 133 fair value hedge and other basis adjustments	(7,835)
Total	$ 1,033,963

FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances had weighted-average rates of 5.48% and 5.30% at September 30, 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.

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

(dollars in thousands)	
2005 remaining	$ 93
2006	371
2007	371
2008	371
2009	390
Thereafter	12,874
Total minimum lease payments	14,470
Less amounts representing interest	9,969
Present value of net minimum lease payments	$ 4,501

NOTE 13 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 nine months ended September 30:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(dollars in thousands)	**2005**	**2004**	**2005**	**2004**
Service cost	**$ 360**	$ 485	**$ 1,238**	$ 1,507
Interest cost	**891**	999	**2,675**	2,973
Expected return on plan assets	**(1,012)**	(901)	**(2,932)**	(2,653)
Amortization of prior service cost	**(86)**	8	**(164)**	24
Amortization of transitional asset		(108)		(324)
Recognized actuarial loss	**378**	392	**1,164**	1,181
Net periodic benefit cost	**$ 531**	$ 875	**$ 1,981**	$ 2,708

During 2001, Old National amended this plan, freezing the benefit accruals for approximately 66% of the active participants. During the third quarter of 2005, Old National further amended this plan to freeze benefit accruals for all remaining participants effective December 31, 2005. The curtailment is expected to result in a $9.2 million reduction in Projected Benefit Obligation, a one-time curtailment gain of $1.5 million in the fourth quarter of 2005, and a $2.7 million reduction in pension expense in 2006.

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 September 30, 2005, 6.4 million shares were outstanding under the plan, including 5.9 million stock options and 0.5 million shares of restricted stock as described below, 0.3 million shares have been exercised, and 0.9 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 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 vested on September 7, 2005, and expire in ten years. At September 30, 2005, Old National had 6.0 million of stock options outstanding.

On October 17, 2005, subsequent to quarter end, the Compensation and Management Development Committee of the Board of Directors approved the acceleration of all unvested options granted prior to 2004. See Note 3 for additional details.

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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 September 30, 2005, the shares issued have an estimated value of $9.8 million based on the stock price on that date. The expense recognized during the nine months ended September 30, 2005, related to the vesting of these awards was $2.2 million. The remaining $6.5 million of deferred compensation is included as a component of capital surplus.

NOTE 14 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 nine months ended September 30:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(dollars in thousands)	**2005**	**2004**	**2005**	**2004**
Provision at statutory rate of 35%	**$ 7,743**	$ 8,889	**$ 24,647**	$ 15,710
Tax-exempt income	**(4,132)**	(4,560)	**(12,804)**	(13,960)
Other, net	**(363)**	(326)	**(551)**	(766)
Income tax expense	**$ 3,248**	$ 4,003	**$ 11,292**	$ 984
Effective tax rate	**14.7%**	15.8%	**16.0%**	2.2%

For the three months ended September 30, 2005, the effective tax rate on income from continuing operations was lower than for the three months ended September 30, 2004. For the nine months ended September 30, 2005, the effective tax rate on income from continuing operations was higher than for the nine months ended September 30, 2004. The increased effective tax rate for the nine month period ended September 30, 2005, resulted from a lower percentage of tax-exempt income to total income compared to the nine months ended September 30, 2004.

NOTE 15 COMPREHENSIVE INCOME

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(dollars in thousands)	**2005**	**2004**	**2005**	**2004**
Net income:	**$ 4,493**	$ 21,759	**$ 44,304**	$ 46,255
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period, net of tax	**(3,751)**	43,021	**(8,761)**	2,667
Less: reclassification adjustment for securities gains realized in net income, net of tax	**(370)**	(185)	**(703)**	(1,348)
Cash flow hedges:				
Net unrealized derivative gains (losses) on cash flow hedges, net of tax	**(73)**	(2,205)	**512**	(1,689)
	46	47	**(30)**	141

Less: reclassification adjustment on cash flow hedges, net of tax				
Net unrealized gains (losses)	**(4,148)**	40,678	**(8,982)**	(229)
Comprehensive income	**$ 345**	$ 62,437	**$ 35,322**	$ 46,026

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NOTE 16 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 September 30:

	2005			2004		
		Estimated Fair Value			Estimated Fair Value	
(dollars in thousands)	Notional Amount	Gain	Loss	Notional Amount	Gain	Loss
Fair Value Hedges						
Receive fixed interest rate swaps	**$ 751,748**	**$ 157**	**$ (18,412)**	$ 756,213	$ 3,491	$ (7,732)
Pay fixed interest rate swaps	**20,000**	**95**	**(72)**	20,000		(458)
Forward mortgage loan contracts	**17,057**	**189**		5,169		(50)
Cash Flow Hedges						
HELOC cash flow	**50,000**		**(104)**	100,000	261	
Pay fixed interest rate swaps				70,000	372	
Stand Alone Hedges						
Receive fixed interest rate swaps	**456,000**	**2,130**	**(8,463)**	496,000	8,247	(4,184)
Interest rate lock commitments	**40,297**	**69**		33,282	169	
Forward mortgage loan contracts	**49,257**	**217**		42,060		(119)
Options on contracts purchased				6,000		(16)
Anticipated floating rate debt				295,000	484	(2,784)
Matched Customer Hedges						
Customer interest rate swaps	**202,308**	**984**	**(1,209)**	68,323	699	(242)
Customer interest rate swaps with counterparty	**202,308**	**1,209**	**(984)**	68,323	242	(699)
Customer interest rate cap	**2,300**		**(14)**	2,300		(23)
Customer interest rate cap with counterparty	**2,300**	**14**		2,300	23	
Total	**$ 1,793,575**	**$ 5,064**	**$ (29,258)**	$ 1,964,970	$ 13,988	$ (16,307)

NOTE 17 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 September 30, 2005, the approximate

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$0.7 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, and as of September 30, 2005, the Illinois Supreme Court had denied an appeal of the Court of Appeal s decision on $10 million of the approximately $16 million in exposure, bringing to finality a substantial portion of the Cook County action. Plaintiffs have filed an identical case to the Cook County case in St. Clair County, Illinois. It is uncertain at this time whether any future judgements or settlements of the remaining Cook County matters or the duplicate case filed in St. Clair County will have an 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 $1.231 billion, commercial letters of credit of $49 thousand and standby letters of credit of $140.8 million at September 30, 2005. At September 30, 2004, loan commitments were $1.374 billion, commercial letters of credit were $14.4 million and standby letters of credit were $109.8 million. These commitments are not reflected in the consolidated financial statements. Management believes the reserve for unfunded commitments is adequate as of September 30, 2005.

At September 30, 2005 and 2004, Old National had credit extensions of $92.7 million and $72.8 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National s clients. At September 30, 2005 and 2004, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $62.2 million and $40.9 million, respectively. Old National did not provide collateral for the remaining credit extensions.

NOTE 18 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 September 30, 2005, the notional amount of standby letters of credit was $140.8 million, which represents the maximum amount of future funding requirements, and the carrying value was $0.5 million.

NOTE 19 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 and nine months ended September 30:

(dollars in thousands)	**Community Banking**	**Treasury**	**Other**	**Total**
Three months ended September 30, 2005				
Net interest income	**$ 65,167**	**$ (6,021)**	**$ (3,480)**	**$ 55,666**
Provision for loan losses	**6,115**	**(115)**		**6,000**
Noninterest income	**19,561**	**(2,079)**	**16,674**	**34,156**
Noninterest expense	**49,379**	**702**	**11,617**	**61,698**
Income (loss) before income taxes and discontinued operations	**29,234**	**(8,687)**	**1,577**	**22,124**
Income tax expense (benefit)	**7,898**	**(5,159)**	**509**	**3,248**
Loss from discontinued operations, net of income tax expense		**1,124**	**(15,507)**	**(14,383)**
Segment profit (loss)	**21,336**	**(2,404)**	**(14,439)**	**4,493**
Total assets	**5,371,185**	**2,948,865**	**215,241**	**8,535,291**
Three months ended September 30, 2004				
Net interest income	$ 66,709	$ (6,735)	$ (3,667)	$ 56,307
Provision for loan losses	7,343	57		7,400
Noninterest income	17,335	12,580	15,475	45,390
Noninterest expense	56,861	297	11,742	68,900
Income (loss) before income taxes and discontinued operations	19,840	5,491	66	25,397
Income tax expense (benefit)	4,519	(543)	27	4,003
Income from discontinued operations, net of income tax expense			365	365
Segment profit	15,321	6,034	404	21,759
Total assets	5,333,011	3,368,118	280,586	8,981,715

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(dollars in thousands)	Community Banking	Treasury	Other	Total
Nine months ended September 30, 2005				
Net interest income	**$ 194,998**	**$ (18,878)**	**$ (10,576)**	**$ 165,544**
Provision for loan losses	**17,091**	**9**		**17,100**
Noninterest income	**55,416**	**6,668**	**51,293**	**113,377**
Noninterest expense	**154,757**	**2,447**	**34,196**	**191,400**
Income (loss) before income taxes and discontinued operations	**78,566**	**(14,666)**	**6,521**	**70,421**
Income tax expense (benefit)	**20,882**	**(11,692)**	**2,102**	**11,292**
Loss from discontinued operations, net of income tax expense			**(14,825)**	**(14,825)**
Segment profit (loss)	**57,684**	**(2,974)**	**(10,406)**	**44,304**
Total assets	**5,371,185**	**2,948,865**	**215,241**	**8,535,291**
Nine months ended September 30, 2004				
Net interest income	$ 208,753	$ (22,124)	$ (10,245)	$ 176,384
Provision for loan losses	22,227	173		22,400
Noninterest income	56,085	19,050	50,037	125,172
Noninterest expense	187,586	3,089	43,594	234,269
Income (loss) before income taxes and discontinued operations	55,025	(6,336)	(3,802)	44,887
Income tax expense (benefit)	12,267	(10,116)	(1,167)	984
Income from discontinued operations, net of income tax expense			2,352	2,352
Segment profit (loss)	42,758	3,780	(283)	46,255
Total assets	5,333,011	3,368,118	280,586	8,981,715

NOTE 20 SUBSEQUENT EVENT

Subsequent to September 30, 2005, Old National finalized the sale of five branches in Clarksville, Tennessee, assigning approximately $173 million in deposits and selling approximately $115 million in loans outstanding. These branches are in markets no longer considered consistent with the company s strategy. The sale will result in a pre-tax gain of approximately $14 million which will be included in income from continuing operations during the fourth quarter.

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PART I. FINANCIAL INFORMATION

ITEM 2.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is an analysis of Old National s results of operations for the three months and nine months ended September 30, 2005 and 2004, and financial condition as of September 30, 2005, compared to September 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.

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

Old National continues to focus on its key strategic initiatives: (1) strengthen the risk profile; (2) enhance management discipline; and (3) achieve consistent quality earnings. In the last twelve months, Old National generated significant improvement in its asset quality. Non-performing loans at September 30, 2005, were $58.8 million compared to $106.0 million at September 30, 2004. The provision for loan losses for the nine months ended September 30, 2005 was $17.1 million, a $5.3 million decrease compared to the $22.4 million during the first nine months of 2004.

In following the disciplined approach to capital allocation, Old National closed on the sales of J.W. Terrill Insurance Agency (Terrill) and Fund Evaluation Group (FEG) during the third quarter of 2005, both of which were included in discontinued operations. Subsequent to the end of the third quarter, the company also closed on the sale of all five financial centers located in the Clarksville, Tennessee market. The impact of the financial center sales will be reported in continuing operations in the fourth quarter of 2005.

Income from continuing operations for the three months ended September 30, 2005, was $18.9 million, or $0.28 per diluted share compared to income from continuing operations totaling $21.4 million, or $0.31 per diluted share for the same quarter last year. Income from continuing operations for the nine months ended September 30, 2005, was $59.1 million, or $0.87 per diluted share, compared to income from continuing operations of $43.9 million, or $0.63 per diluted share for the nine months ended September 30, 2004.

Old National reported net income of $4.5 million for the three months ended September 30, 2005, a decrease of $17.3 million, or 79.4% from the $21.8 million recorded for the three months ended September 30, 2004. Net income for the three months ended September 30, 2005, includes the $14.4 million loss from discontinued operations related to the sale of Terrill and FEG. See Note 5 to the consolidated financial statements for additional information. For the nine months ended September 30, 2005, net income was $44.3 million, a decrease of $2.0 million, or 4.2% from the $46.3 million recorded for the nine months ended September 30, 2004. On a diluted per share basis, net income was $0.07 for the three months ended September 30, 2005, compared to $0.31 for the three months ended September 30, 2004. Diluted earnings per share were $0.65 for the nine months ended September 30, 2005, compared to $0.66 for the nine months ended September 30, 2004.

Calculated based on income from continuing operations, Old National s return on average assets was 0.88% and return on shareholders equity was 11.16%, compared to 0.95% and 12.38%, respectively, for the three months ended September 30, 2004. Old National s return on average assets for the nine months ended September 30, 2005, was 0.91% and return on shareholders equity was 11.40%, compared to return on average assets of 0.64% and return on shareholders equity of 8.19% for the nine months ended September 30, 2004. Results in 2004 were impacted by nonrecurring expenses related to Ascend .

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Old National s near-term challenges include managing net interest margin in this rising rate environment, developing strong non-interest bearing deposit growth, and managing expenses.

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the three and nine months ended September 30, 2005 and 2004:

(dollars in thousands, except per share data)	Three Months Ended September 30, 2005	2004	Change	Nine Months Ended September 30, 2005	2004	Change
Income Statement Summary:						
Net interest income	**$ 55,666**	$ 56,307	(1.1)%	**$ 165,544**	$ 176,384	(6.1)%
Provision for loan losses	**6,000**	7,400	(18.9)	**17,100**	22,400	(23.7)
Noninterest income	**34,156**	45,390	(24.7)	**113,377**	125,172	(9.4)
Noninterest expense	**61,698**	68,900	(10.5)	**191,400**	234,269	(18.3)

Net Interest Income

Net interest income is Old National s most significant component of earnings, comprising over 59% of revenues at September 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 to income tax expense. Net interest income includes taxable equivalent adjustments of $5.2 million and $6.0 million for the three months ended September 30, 2005 and 2004, respectively. Taxable equivalent adjustments for the nine months ended September 30, 2005 and 2004, were $16.3 million and $18.1 million, respectively.

Taxable equivalent net interest income was $60.9 million and $181.9 million for the three and nine months ended September 30, 2005, respectively, down from the $62.3 million and $194.5 reported for the three and nine months ended September 30, 2004, respectively. The net interest margin was 3.16% and 3.09% for the three and nine months ended September 30, 2005, respectively, compared to 3.07% and 3.11% reported for the three and nine months ended September 30, 2004, respectively. The reduction in net interest income is primarily a result of the lower average earning assets. The decline in net interest margin for the nine months ended September 30, 2005 is due to the compression in the net interest spread as a result of the dramatic increase in short-term interest rates.

Average earning assets were $7.714 billion for the three months ended September 30, 2005, compared to $8.117 billion for the three months ended September 30, 2004, a decrease of 5.0%, or $403.6 million. Average earning assets were $7.838 billion for the nine months ended September 30, 2005, compared to $8.338 billion for the nine months ended September 30, 2004, a decrease of 6.0%, or $499.6 million. Significantly affecting average earning assets at September 30, 2005 compared to September 30, 2004, was Management s decision to reduce 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 $43.1 million during the quarter ended December 31, 2004.

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Provision for Loan Losses

The provision for loan losses was $6.0 million and $17.1 million for the three and nine months ended September 30, 2005, respectively, compared to $7.4 million and $22.4 million for the three and nine months ended September 30, 2004, respectively. The lower provisions in 2005 are attributable to a decrease in total criticized and classified loans and enhanced credit administration and underwriting functions that began in 2004. 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 September 30, 2005, was $34.2 million, a decrease of $11.2 million, or 24.7% from the $45.4 million reported for the three months ended September 30, 2004. For the nine months ended September 30, 2005, noninterest income was $113.4 million, a decrease of $11.8 million, or 9.4% from the $125.2 million reported for the nine months ended September 30, 2004.

Net securities gains increased by $0.3 million for the three months ended September 30, 2005 compared to September 30, 2004, and decreased by $1.1 million for the nine months ended September 30, 2005 compared to September 30, 2004. Derivatives income decreased by $15.1 million for the three months ended September 30, 2005 compared to September 30, 2004, and decreased by $9.9 million for the nine months ended September 30, 2005 compared to September 30, 2004. Total noninterest income excluding net securities and derivatives gains was $38.1 million and $111.6 million for the three and nine months ended September 30, 2005, respectively, compared to $34.6 million and $112.4 million for the three and nine months ended September 30, 2004, respectively.

Primarily as a result of the acquisition of J. W. F. Insurance Companies in the second quarter of 2005, insurance premiums and commissions increased to $8.5 million and $26.6 million for the three and nine months ended September 30, 2005, compared to $7.4 million and $24.8 million for the three and nine months ended September 30, 2004, a 15.1% and 7.5% increase, respectively. Insurance premiums and commissions related to J.W. Terrill Insurance Agency are not included in these amounts. See Note 5 to the consolidated financial statements for a discussion of discontinued operations and divestitures.

Mortgage banking revenue increased $1.5 million to $1.8 million for the three months ended September 30, 2005, from $0.3 million for the three months ended September 30, 2004. Mortgage origination activity during the three-month period ended September 30, 2005 was comparable to production during the third quarter of 2004; however, secondary market demand was higher during the third quarter of 2005 along with reduced mortgage servicing impairment expense. For the nine months ended September 30, 2005, mortgage banking revenue was $4.4 million compared to $7.1 million for the nine months ended September 30, 2004, a $2.6 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.

Investment product fees were $2.2 million and $7.1 million for the three and nine months ended September 30, 2005, respectively, compared to $2.5 million and $9.5 million for the three and nine months ended September 30, 2004, respectively. The decrease in 2005 is primarily the result of a decrease in sales of fixed annuities which have been suppressed by the rising interest rate environment, resulting in lower fixed annuity fees.

Included in other income for the three months ended September 30, 2005 is a pre-tax gain of $0.4 million related to the sale of mortgage servicing rights. See Note 11 to the consolidated financial statements for additional detail.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2005, totaled $61.7 million, a decrease of $7.2 million or 10.5%, from the $68.9 million recorded for the three months ended September 30, 2004. For the nine months ended September 30, 2005, noninterest expense was $191.4 million, a decrease of $42.9 million, or 18.3% from the $234.3 million recorded for the nine months ended September 30, 2004.

Salaries and benefits is the largest component of noninterest expense. For the three and nine months ended September 30, 2005, salaries and benefits were $35.9 million and $113.6 million, respectively, compared to $38.3

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million and $130.6 million for the three and nine months ended September 30, 2004, respectively. The decrease in salaries and benefits in 2005 is primarily a result of lower incentive compensation in 2005 and benefits associated with the Ascend initiative, offset by the personnel expense associated with the acquisition of J.W.F. Insurance Companies during the year. Included in salaries and benefits for the nine months ended September 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 and severance costs for employees whose positions were eliminated and expenses related to incentive programs for employees participating in Ascend .

Professional fees totaled $2.3 million for the three months ended September 30, 2005, compared to $3.1 million for the three months September 30, 2004. For the nine months ended September 30, 2005, professional fees were $6.4 million compared to $23.0 million for the nine months ended September 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 $23.5 million for the three months ended September 30, 2005, compared to $27.5 million for the three months ended September 30, 2004. For the nine months ended September 30, 2005 and 2004, all other components of noninterest expense totaled $71.3 million and $80.7 million, respectively. Included in the totals for 2005 is a $4.7 million reduction in the reserve for unfunded commitments.

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 14.7% for the three months ended September 30, 2005, compared to 15.8% in the three months ended September 30, 2004. The provision for income taxes on continuing operations, as a percentage of pre-tax income, was 16.0% for the nine months ended September 30, 2005, compared to 2.2% for the nine months ended September 30, 2004. The increased effective tax rate in 2005 for the nine months ended September 30, 2005, resulted from a lower percentage of tax-exempt income to total income compared to the same nine month period in 2004.

FINANCIAL CONDITION

Overview

Old National s assets at September 30, 2005, were $8.535 billion, a 5.0% decrease compared to September 30, 2004 assets of $8.982 billion, and an annualized decrease of 5.4% compared to December 31, 2004 assets of $8.898 billion. Investments decreased $330.3 million since September 30, 2004, and decreased $487.1 million since December 31, 2004. Loans increased $10.8 million since September 30, 2004, and increased $127.6 million since December 31, 2004. Total liabilities decreased $400.5 million compared to September 30, 2004, and decreased $328.0 million since December 31, 2004, primarily from a reduction in borrowings. Total shareholders equity decreased $46.0 million from September 30, 2004, and decreased $35.0 million from December 31, 2004. The decrease in shareholders equity from September 30, 2004 is primarily attributable to fluctuations in the market value of investment securities in the amount of $11.4 million, a $28.7 million increase in stock repurchases, and the issuance of $18.5 million in stock for the acquisition of J. W. F. Insurance Companies. At September 30, 2005, accumulated other comprehensive income, of which the largest component is unrealized gains (losses) on securities, was a net loss of $4.6 million compared to a net gain of $14.4 million at September 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 $7.705 billion at September 30, 2005, a decrease of 5.1% from September 30, 2004, and an annualized decrease of 5.1% 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

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requirements. At September 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 September 30, 2005, the investment securities portfolio was $2.526 billion compared to $2.856 billion at September 30, 2004, a decrease of $330.3 million or 11.6%. Investment securities decreased $487.1 million at September 30, 2005, compared to December 31, 2004, an annualized decrease of 21.6%. Investment securities represented 32.8% of earning assets at September 30, 2005, compared to 35.2% at September 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 losses of $6.5 million at September 30, 2005, a decrease of $32.4 million compared to net unrealized gains of $25.8 million at September 30, 2004, and a decrease of $15.8 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 September 30, 2005.

The investment portfolio had an average duration of 3.31 years at September 30, 2005, compared to 3.66 years at September 30, 2004, and 3.70 years at December 31, 2004. The average yields on investment securities, on a taxable equivalent basis, were 4.70% for the three months ended September 30, 2005, compared to 4.61% for the three months ended September 30, 2004, and 4.45% for the three months ended December 31, 2004. Average yields on investment securities, on a taxable equivalent basis, were 4.57%, 4.60% and 4.56% for the nine months ended September 30, 2005 and 2004, and for the year ended December 31, 2004, respectively.

Residential Loans Held for Sale

Residential loans held for sale were $66.0 million at September 30, 2005, compared to $22.1 million at September 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. Prior to September 30, 2005, these loans were sold with loan servicing retained. In the fourth quarter of 2005, in an effort to reduce the overall volatility in the company s earnings stream, Old National will cease selling loans with servicing retained.

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. 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 reviews and approves recommended loan policy changes 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 September 30, 2005, the company had no concentration of loans in any single industry category which exceeded 10% of its total loan portfolio and had no exposure to foreign borrowers or lesser-developed countries. Two measured industry categories, Lessors of Residential Buildings and Dwellings and Lessors of Nonresidential Buildings, did exceed internal guidelines which set out recommended maximum limits of loan commitments as a percent of capital. 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, had resulted in a decline of commercial loans. During the second quarter of 2005, Old National began to experience growth in commercial loans.

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Commercial and Consumer Loans

Commercial and consumer loans are the largest classification within the earning assets of Old National representing 59.2% of earning assets at September 30, 2005, an increase from 55.7% at September 30, 2004, and an increase from 55.0% at December 31, 2004. At September 30, 2005, commercial and commercial real estate loans were $3.264 billion, a decrease of $36.8 million since September 30, 2004, and an increase of $59.8 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 September 30, 2005, consumer loans, including automobile loans, personal and home equity loans and lines of credit, and student loans, increased $70.5 million or 5.7% compared to September 30, 2004, and increased $92.0 million or, annualized, 10.2% 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. Old National sells the majority of the residential real estate loans without recourse.

At September 30, 2005, residential real estate loans were $531.2 million, a decrease of $22.8 million or 4.1% from September 30, 2004. Since the sale of $405.6 million of residential real estate loans during the three months ended June 30, 2004, the level of residential real estate loans has been relatively stable.

Allowance for Loan Losses and Asset Quality Administration

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, asset quality ratings, mix of loans, expected losses and the review of select environmental factors. A detailed loan loss evaluation on an individual loan basis for the company s highest risk loans is performed monthly. 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 of selected loan portfolios as well as regular reviews of problem loan performance statistics.

Each month, problem loan reports are prepared and reviewed, which include borrowers that show indications of being unable to meet debt obligations in the normal course of business, and loans which have other characteristics deemed by bank management to warrant special attention or have been criticized by regulators in the examination process. Classified loans include non-performing loans, past due 90 days or more and other loans deemed to have well-defined weaknesses while criticized loans, also known as special mention loans, are loans that are deemed to have potential weaknesses that deserve management s close attention and also require specific monthly reviews by the bank. Assets determined by the various evaluation processes to be under-performing receive special attention by Old National management. Under-performing assets consist of: 1) nonaccrual loans where the ultimate collectibility of interest or principal is uncertain; 2) loans renegotiated in some manner, primarily to provide for a reduction or deferral of interest or principal payments because the borrower s financial condition deteriorated; 3) loans with principal or interest past due ninety (90) days or more; and 4) foreclosed properties.

A loan is generally placed on nonaccrual status when principal or interest become 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. When loans are classified as nonaccrual, interest accrued during the current year is reversed against earnings; interest accrued in the prior year, if any, is charged to the allowance for loan losses. Cash received while a loan is classified as nonaccrual is recorded to principal.

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Adjustments to the allowance for loan losses are made as deemed necessary for probable losses inherent in the portfolio. While an estimate of probable losses is, by its very nature, difficult to precisely predict, management of Old National believes that the methodology that it uses in determining an appropriate reserve for expected losses is reasonable.

Loan officers and credit underwriters jointly grade the larger commercial and commercial real estate loans in the portfolio periodically as determined by loan policy requirements or determined by specific guidelines based on loan characteristics as set by management and banking regulation. Periodically, these loan grades are reviewed independently by the loan review department. For impaired loans, an assessment is conducted as to whether there is likely loss in the event of default. If such a loss is determined to be likely, the loss is quantified and a specific reserve is assigned to the loan. For the balance of the commercial and commercial real estate loan portfolio, loan grade migration analysis coupled with historic loss experience within the respective grades is used to develop reserve requirement ranges based on expected losses.

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.

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.

Allowance for Loan Losses and Asset Quality

At September 30, 2005, the allowance for loan losses was $81.4 million, a decrease of $14.9 million compared to $96.3 million at September 30, 2004, and a decrease of $4.3 million compared to $85.7 million at December 31, 2004. As a percentage of total loans, the allowance decreased to 1.58% at September 30, 2005, from 1.89% at September 30, 2004, and decreased from 1.72% at December 31, 2004. For the three months ended September 30, 2005, the provision for loan losses amounted to $6.0 million, a decrease of $1.4 million from the three months ended September 30, 2004. The provision for the nine months ended September 30, 2005, amounted to $17.1 million compared to $22.4 million for the nine months ended September 30, 2004. Reductions in nonperforming loans during 2004 and the first six months of 2005 were significant factors in the decrease of the allowance for loan losses. Other factors include reductions in criticized and classified loans during the periods in question, which included the sales of $26.7 million in substandard commercial real estate loans during 2005 and the sale of $405.6 million of residential real estate loans in 2004. Changes to separate the loan production functions from the underwriting functions and significant strengthening of the commercial underwriting processes including the elevation of the Credit Policy Committee to a board level committee to improve credit quality were all contributing factors to the reduction in criticized and classified loans during the period.

Charge-offs, net of recoveries, totaled $5.3 million for the three months ended September 30, 2005, a decrease of $0.9 million from the three months ended September 30, 2004. Net charge-offs for the nine months ended September 30, 2005, totaled $21.5 million compared to $22.1 million for the nine months ended September 30, 2004. Charge-offs included write-downs of $5.3 million and $1.2 million on loans sold during the three months ended June 30, 2005 and 2004, respectively. Net charge-offs to average loans were 0.41% and 0.57% for the three months and nine months ended September 30, 2005, respectively, as compared to 0.48% and 0.54% for the three months and

nine months ended September 30, 2004.

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Under-performing assets totaled $64.1 million at September 30, 2005, significantly lower than $116.6 million at September 30, 2004, and lower than $65.6 million at December 31, 2004. As a percent of total loans and foreclosed properties, under-performing assets at September 30, 2005, were 1.24%, a reduction from the September 30, 2004, ratio of 2.28% and the December 31, 2004 ratio of 1.31%. Nonaccrual loans were $58.8 million at September 30, 2005, compared to $106.0 million at September 30, 2004, and $54.9 million at December 31, 2004. Management will continue its efforts to reduce the level of under-performing loans and may consider the possibility of additional sales of troubled and non-performing loans, which could result in additional write-downs to the allowance for loan losses. Total classified and criticized loans were $248.7 million at September 30, 2005, a decrease of $224.6 million from September 30, 2004, and $91.6 million from December 31, 2004.

Management believes it has taken a prudent approach to the evaluation of under-performing, criticized and classified loans, and the loan portfolio in general both in acknowledging the portfolio s general condition and in establishing the allowance for loan losses. Old National has been affected by weakness in the economy of its markets, which has resulted in minimal growth of commercial loans and tighter credit underwriting standards. Management expects that trends in under-performing, criticized and classified loans will be influenced by the degree to which the economy strengthens. Old National operates in the Midwest, primarily in the state of Indiana, which has been particularly negatively affected by the weakness in the manufacturing segment of the economy. The longer the significant softness in manufacturing continues the more stress it puts on Old National s borrowers, increasing the potential for additional nonaccrual loans.

The table below shows the various components of under-performing assets:

(dollars in thousands)	September 30, 2005	2004	December 31, 2004
Nonaccrual loans	**$ 58,820**	$ 106,002	$ 54,890
Renegotiated loans			
Past due loans (90 days or more)	**1,919**	6,722	2,414
Foreclosed properties	**3,406**	3,842	8,331
Total under-performing assets	**$ 64,145**	$ 116,566	$ 65,635
Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans)	**$ 145,884**	$ 268,474	$ 192,214
Criticized loans	**102,855**	204,844	148,118
Total criticized and classified loans	**$ 248,739**	$ 473,318	$ 340,332
Asset Quality Ratios: (1)			
Non-performing loans/total loans (1) (2)	**1.14%**	2.08%	1.10%
Under-performing assets/total loans and foreclosed properties (1)	**1.24**	2.28	1.31
Under-performing assets/total assets	**0.75**	1.30	0.74
Allowance for loan losses/under-performing assets	**126.83**	82.63	130.65

(1) Items referring to loans are net of unearned income and include

residential loans held for sale.

(2) (2) Non-performing loans include nonaccrual and renegotiated loans.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at September 30, 2005, totaled $137.0 million, a decrease of $32.4 million and $31.8 million, respectively, compared to $169.4 million at September 30, 2004, and $168.8 million at December 31, 2004. The sales of selected non-strategic companies in the third quarter of 2005 resulted in a $47.9 million reduction in goodwill and other intangible assets. See Note 10 to the consolidated financial statements for further details. These decreases were partially offset by the addition of $20.4 million in goodwill and intangible assets related to the May 1, 2005 acquisition of J. W. F. Insurance Companies as discussed under Acquisition and Divestitures Activity in this Management s Discussion and Analysis of Financial Condition and Results of Operations.

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Funding

Total funding, comprised of deposits and wholesale borrowings, was $7.758 billion at September 30, 2005, a decrease of 4.8% from $8.148 billion at September 30, 2004, and an annualized decrease of 5.2% from $8.073 billion at December 31, 2004. Included in total funding were deposits of $6.373 billion at September 30, 2005, a decrease of 0.6% compared to September 30, 2004, and an annualized decrease of 0.9% compared to December 31, 2004. While total deposits remained relatively flat, Old National experienced a shift from NOW deposits into money market deposits during 2005 due to the rising interest rate environment.

Old National uses wholesale funding to augment deposit funding and to help maintain its desired interest rate risk position. At September 30, 2005, wholesale borrowings, including short-term borrowings and other borrowings, decreased 20.2% and 21.7%, annualized, from September 30, 2004, and December 31, 2004, respectively. Wholesale borrowings as a percentage of total funding was 17.9% at September 30, 2005, compared to 21.3% at September 30, 2004, and 20.5% at December 31, 2004. The lower level of earning assets, primarily due to loan sales of $26.7 million during 2005 and $448.7 million during 2004, and a planned reduction of the investment portfolio during 2005, reduced the company s reliance on wholesale funding.

Capital Resources and Regulatory Guidelines

Shareholders equity totaled $669.1 million at September 30, 2005, compared to $715.0 million at September 30, 2004, and $704.1 million at December 31, 2004.

Old National paid cash dividends of $0.19 and $0.57 per share for the three months and nine months ended September 30, 2005, respectively, which decreased equity by $38.9 million, compared to cash dividends of $0.18 and $0.54 per share for the three months and nine months ended September 30, 2004, respectively, (restated for the 5% stock dividend distributed on January 26, 2005), which decreased equity by $37.8 million. Old National purchased shares of its stock in the open market under an ongoing repurchase program, reducing shareholders equity by $54.9 million during the nine months ended September 30, 2005, and $26.2 million during the nine months ended September 30, 2004. The change in unrealized losses on investment securities decreased equity by $8.8 million during the nine months ended September 30, 2005, and increased equity by $2.7 million during the nine months ended September 30, 2004. Shares issued for stock options, restricted stock and stock purchase plans increased shareholders equity by $4.9 million during the nine months ended September 30, 2005, compared to $12.1 million during the nine months ended September 30, 2004. Additionally, stock issued for acquisitions increased shareholders equity by $18.5 million in the nine months ended September 30, 2005.

Old National filed an S-3 Registration Statement with the Securities and Exchange Commission for the purpose of amending the Old National Bancorp Stock Purchase and Dividend Reinvestment Plan, which became effective on January 6, 2005. The plan has two main purposes. First, the plan allows investors and shareholders a convenient, low-cost way to buy shares and reinvest cash dividends in additional shares of Old National common stock. Secondly, the plan gives Old National the ability to raise capital by selling newly issued shares of common stock. A key feature is the ability for Old National to sell newly issued shares at a discount from the market price. Common stock totaling 3.5 million shares can be issued under this plan.

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. Old National s consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

	Regulatory Guidelines Minimum	September 30, 2005	September 30, 2004	December 31, 2004
Risk-based capital:				
Tier 1 capital to total avg assets (leverage ratio)	4.00%	**7.57**%	7.72%	7.69%
Tier 1 capital to risk-adjusted total assets	4.00	**10.36**	11.48	11.19
Total capital to risk-adjusted total assets	8.00	**14.05**	15.27	14.92
Shareholders equity to assets	N/A	**7.84**	7.96	7.91

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Old National s critical accounting policies involving the more significant judgments, estimates and assumptions used in the preparation of the consolidated financial statements as of September 30, 2005 remain unchanged from December 31, 2004. These policies relate to the accounting for the allowance for loan losses, goodwill and other intangible assets, and mortgage servicing rights. During the quarter ended September 30, 2005, the company sold its mortgage servicing rights. See Note 11 to the consolidated financial statements for further details. Disclosure on these critical accounting policies is incorporated by reference under Item 7- Management s Discussion and Analysis of Financial Condition and Results of Operations in the company s Annual Report on Form 10-K for the year ended December 31, 2004.

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.

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ITEM 3. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK MANAGEMENT

Inherent in Old National s balance sheet is market risk, defined as the sensitivity of income, fair market values and capital to changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market rates or prices. The primary market risk to which Old National has exposure is interest rate risk. Interest rate risk arises because assets and liabilities may reprice, mature or prepay at different times or based upon different market instruments as market interest rates change. Changes in the slope of the yield curve and the pace of interest rate changes may also impact net interest income and the fair value of the balance sheet.

Old National manages interest rate risk within an overall asset and liability management framework that includes attention to credit risk, liquidity risk and capitalization. A principal objective of asset/liability management is to manage the sensitivity of net interest income to changing interest rates. Asset and liability management activity is governed by a policy reviewed and approved annually by the Board of Directors. The Board of Directors has delegated the administration of this policy to the Funds Management Committee, a committee of the Board of Directors, and the Executive Balance Sheet Management Committee, a committee comprised of senior executive management. The Funds Management Committee meets quarterly and oversees adherence to policy and recommends policy changes to the Board. The Executive Balance Sheet Management Committee meets quarterly. This committee determines balance sheet management strategies and initiatives for the company. A group comprised of corporate and line management meets monthly to implement strategies and initiatives determined by the Executive Balance Sheet Management Committee.

Old National uses two modeling techniques to quantify the impact of changing interest rates on the company, Net Interest Income at Risk and Economic Value of Equity. Net Interest Income at Risk is used by management and the Board of Directors to evaluate the impact of changing rates over a two-year horizon. Economic Value of Equity is used to evaluate long-term interest rate risk. These models simulate the likely behavior of the company s net interest income and the likely change in the company s economic value due to changes in interest rates under various possible interest rate scenarios. Because the models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect the company s net interest income and value, Old National recognizes that model outputs are not guarantees of actual results. For this reason, Old National models many different combinations of interest rates and balance sheet assumptions to best understand its overall sensitivity to market interest rate changes. Old National s Board of Directors, through its Funds Management Committee, monitors the company s interest rate risk. On January 26, 2005, the Funds Management Committee approved new policy guidelines for the allowable change in Net Interest Income at Risk and Economic Value of Equity to enhance the monitoring of compliance within identified interest rate risk exposure zones.

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Policy guidelines, in addition to September 30, 2005 and 2004 results, are as follows:

Net Interest Income 12 Month Policies (+/-)

	Interest Rate Change in Basis Points (bp)				
	Down 200	**Down 100**	**Up 100**	**Up 200**	**Up 300**
Green Zone	6.50%	3.00%	3.00%	6.50%	12.00%
Yellow Zone	6.50% - 8.50%	3.00% - 4.00%	3.00% - 4.00%	6.50% - 8.50%	12.00% - 15.00%
Red Zone	8.50%	4.00%	4.00%	8.50%	15.00%
9/30/2005	1.45%	1.55%	-2.70%	-6.41%	-10.28%
9/30/2004	0.72%	2.17%	-3.30%	-6.83%	-11.13%

Net Interest Income 24 Month Cumulative Policies (+/-)

	Interest Rate Change in Basis Points (bp)				
	Down 200	**Down 100**	**Up 100**	**Up 200**	**Up 300**
Green Zone	5.00%	2.25%	2.25%	5.00%	10.00%
Yellow Zone	5.00% - 7.00%	2.25% - 3.25%	2.25% - 3.25%	5.00% - 7.00%	10.00% - 12.50%
Red Zone	7.00%	3.25%	3.25%	7.00%	12.50%
9/30/2005	-0.79%	0.76%	-2.21%	-5.75%	-9.66%
9/30/2004	-2.70%	0.64%	-2.19%	-5.03%	-8.53%

Economic Value of Equity Policies (+/-)

	Interest Rate Change in Basis Points (bp)				
	Down 200	**Down 100**	**Up 100**	**Up 200**	**Up 300**
Green Zone	12.00%	5.00%	5.00%	12.00%	22.00%
Yellow Zone	12.00% - 17.00%	5.00% - 7.50%	5.00% - 7.50%	12.00% - 17.00%	22.00% - 30.00%
Red Zone	17.00%	7.50%	7.50%	17.00%	30.00%
9/30/2005	-15.19%	-4.60%	0.20%	-2.17%	-5.27%
9/30/2004	-14.42%	-3.56%	-1.13%	-4.63%	-9.36%

Red zone policy limits represent Old National s absolute interest rate risk exposure compliance limit. Policy limits defined as green zone represent the range of potential interest rate risk exposures that the Funds Management Committee believes to be normal and acceptable operating behavior. Yellow zone policy limits represent a range of interest rate risk exposures falling below the bank s maximum allowable exposure (red zone) but above its normally acceptable interest rate risk levels (green zone).

At September 30, 2005, modeling indicated Old National was within the yellow zone policy limits for the Up 200 24 month cumulative Net Interest Income at Risk Scenario. Old National s position within the yellow zone was deemed acceptable by management at this time. All other Net Interest Income at Risk modeling scenarios fell within Old National s green zone, which is considered the normal and acceptable interest rate risk level.

At September 30, 2005, modeling indicated Old National was within the yellow zone policy limit for the Down 200 Economic Value of Equity Scenario. Management has deemed this scenario as an acceptable risk given the company s outlook for interest rates. All other modeling scenarios fell within Old National s green zone, which is considered the

normal and acceptable interest rate risk level.

At September 30, 2005, a notable change in the company s rate risk profile was reflected in the decrease in the company s estimated change in Economic Value of Equity resulting in the Up 200 basis points yield curve shock. Economic Value of Equity changed from -4.63% at September 30, 2004, to -2.17% at September 30, 2005. The company reduced its long term exposure to rising interest rates by reducing the size and effective duration of the investment portfolio to 3.31 years at September 30, 2005, compared to 3.66 years at September 30, 2004, by

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the shift in deposit mix from certificates of deposit to transaction accounts, and by the termination of certain interest rate swaps.

Old National uses derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. The company s derivatives had an estimated fair value loss of $24.2 million at September 30, 2005, compared to an estimated fair value loss of $2.3 million at September 30, 2004. The decrease in market value was primarily due to increases in short term interest rates and the resulting decline in market value of the receive fixed interest rate swaps for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. In addition, the notional amount of derivatives decreased by $171.4 million. See Note 16 to the consolidated financial statements for additional information.

LIQUIDITY MANAGEMENT

The Funds Management Committee of the Board of Directors establishes liquidity risk guidelines and, along with the Balance Sheet Management Committee, monitors liquidity risk. The objective of liquidity management is to ensure Old National has the ability to fund balance sheet growth and meet deposit and debt obligations in a timely and cost-effective manner. Management monitors liquidity through a regular review of asset and liability maturities, funding sources, and loan and deposit forecasts. The company maintains strategic and contingency liquidity plans to ensure sufficient available funding to satisfy requirements for balance sheet growth, properly manage capital markets funding sources and to address unexpected liquidity requirements.

Old National s ability to raise funding at competitive prices is influenced by rating agencies views of the company s credit quality, liquidity, capital and earnings. These rating agencies have issued a stable outlook in conjunction with their ratings as of September 30, 2005. The senior debt ratings of Old National Bancorp and Old National Bank at September 30, 2005, are shown in the following table.

SENIOR DEBT RATINGS

	Standard and Poor s		Moody s Investor Services		Fitch, Inc.		Dominion Bond Rating Svc.	
	Long term	Short term	Long term	Short term	Long term	Short term	Long term	Short term
Old National Bancorp	BBB	N/A	Baa1	N/A	BBB	F2	BBB (high)	R-2 (high)
Old National Bank	BBB+	A2	A3	P-2	BBB	F2	A (low)	R-1 (low)

N/A = not applicable

As of September 30, 2005, Old National Bank had the capacity to borrow $798.8 million from the Federal Reserve Bank s discount window. Old National Bank is also a member of the Federal Home Loan Bank (FHLB) of Indianapolis, which provides a source of funding through FHLB advances. Old National maintains relationships in capital markets with brokers and dealers to issue certificates of deposits and short-term and medium-term bank notes as well. In addition, at September 30, 2005, Old National had $660 million available for issuance under a $1 billion global bank note program for senior and subordinated debt.

Old National Bancorp, the parent company, has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. Old National Bancorp obtains funding to meet its obligations from dividends and management fees collected from its subsidiaries and the issuance of debt securities. In addition, at September 30, 2005, Old National Bancorp has $700.0 million available under a $750.0 million global shelf registration for the issuance of a variety of securities including debt, common and preferred stock, depository shares, units and warrants of Old National. At September 30, 2005, the parent company s other borrowings outstanding was $255.0 million, compared with $257.4 million at September 30, 2004. The decrease in other borrowings in 2005 was driven by a $2.3 million decline in derivative market values. Old National Bancorp, the parent company, has no debt scheduled to mature within the next

12 months.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. At September 30, 2005, prior regulatory approval was not required for Old National s affiliate bank.

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ITEM 4. CONTROLS AND PROCEDURES

Restatement

On January 31, 2006, Old National announced that certain of its previously issued financial statements contained an error under accounting principles generally accepted in the United States of America (GAAP) relating to the accounting for certain derivative transactions. As a result, Old National determined that it needed to restate its financial statements for the period ended September 30, 2005. For a more detailed discussion regarding this restatement, see Note 2 to the consolidated financial statements.

Evaluation of disclosure controls and procedures.

In connection with the restatement, under the direction of the Chief Executive Officer and Chief Financial Officer, Old National reevaluated its disclosure controls and procedures as of September 30, 2005.

Management identified an error related to Old National s accounting for certain derivative transactions and determined that its previously issued financial statements for the quarter ended September 30, 2005 could not be relied upon. Based upon their evaluation of the error, management concluded that as of September 30, 2005, a material weakness in Old National s internal control over financial reporting relating to the accounting for certain derivative transactions existed. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As a result of the material weakness, management has concluded that Old National s internal control over financial reporting was not effective as of September 30, 2005. Specifically, Old National did not maintain effective controls over the classification of certain interest rate swaps and the related hedged liabilities. This failure resulted from Old National utilizing the short-cut method for evaluating hedge effectiveness when this method was not in accordance with generally accepted accounting principles for use with these instruments.

As a result of this material weakness, Old National concluded that its disclosure controls and procedures were not effective as of September 30, 2005.

Changes in Internal Control over Financial Reporting

As previously reported, there was no change to Old National s internal control over financial reporting during the quarter ended September 30, 2005, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

NONE

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) **ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publically Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
07/01/05 - 07/31/05	305,400	$ 22.06	305,400	1,574,937
08/01/05 - 08/31/05	447,400	22.26	447,400	1,127,537
09/01/05 - 09/30/05	233,700	21.92	233,700	893,837
Quarter-to-date 9/30/05	986,500	$ 22.12	986,500	893,837

Data adjusted for all stock dividends, including a 5% stock dividend to shareholders of record on January 5, 2005, distributed on January 26, 2005.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

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

NONE

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS

The exhibits filed as part of this report and exhibits incorporated herein by reference to other documents are as follows:

Exhibit Number	
3 (i)	Articles of Incorporation of Old National (incorporated by reference to Exhibit 3(i) of Old National s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
3 (ii)	By-Laws of Old National, amended and restated effective April 22, 2004 (incorporated by reference to Exhibit 3(ii) of Old National s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
4	Instruments defining rights of security holders, including indentures
4.1	First Indenture Supplement dated as of May 20, 2005, between Old National and J.P. Morgan Trust Company, as trustee, providing for the issuance of its 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).

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Exhibit Number	
4.2	Form of 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).
10	Material contracts
(a)	Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(a) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
(b)	Second Amendment to the Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(b) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
(c)	2005 Directors Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(c) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
(d)	Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(d) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
(e)	Second Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(e) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
(f)	Third Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(f) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
(g)	2005 Executive Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(g) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
(h)	Summary of Old National Bancorp s Outside Director Compensation Program (incorporated by reference to Old National s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).*
(i)	Old National Bancorp Short-Term Incentive Compensation Plan (incorporated by reference to Appendix II of Old National s Definitive Proxy Statement filed with the Securities and Exchange Commission on March 16, 2005).*
(j)	

Severance Agreement, between Old National and Robert G. Jones (incorporated by reference to Exhibit 10(a) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2005).*

(k) Form of Severance Agreement for Named Executive Officers, as amended (incorporated by reference to Exhibit 10(b) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2005).*

(l) Form of Change of Control Agreement for Named Executive Officers, as amended (incorporated by reference to Exhibit 10(c) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2005).*

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Exhibit Number	
(m)	Old National Bancorp 1999 Equity Incentive Plan (incorporated by reference to Old National s Form S-8 filed on July 20, 2001).*
(n)	First Amendment to the Old National Bancorp 1999 Equity Incentive Plan (incorporated by reference to Exhibit 10(f) of Old National s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*
(o)	Form of 2004 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(g) of Old National s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*
(p)	Form of 2005 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates, (incorporated by reference to Exhibit 10(r) of Old National s Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).*
(q)	Form of Executive Stock Option Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(h) of Old National s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*
(r)	Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National s Registration Statement on Form S-3, Registration No. 333-120545 filed with the Securities and Exchange Commission on November 16, 2004).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OLD NATIONAL BANCORP
(Registrant)

By: /s/ Christopher A. Wolking

Christopher A. Wolking
Executive Vice President and Chief Financial Officer
Duly Authorized Officer and Principal Financial Officer

Date: April 4, 2006