OLD NATIONAL BANCORP /IN/
Form 10-Q
November 08, 2007

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

FORM 10-Q

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

For the quarterly period ended September 30, 2007

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

For the transition period from __________ to __________

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of Registrant as specified in its charter)

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

(812) 464-1294

(Registrant s telephone number, including area code)

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock. The Registrant has one class of common stock (no par value) with 66,202,000 shares outstanding at October 31, 2007.

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OLD NATIONAL BANCORP
CONSOLIDATED BALANCE SHEET

(dollars and shares in thousands, except per share data)	September 30, 2007 (unaudited)	December 31, 2006	September 30, 2006 (unaudited)
Assets			
Cash and due from banks	**$ 192,921**	$ 210,303	$ 176,632
Federal funds sold and resell agreements	**179**	283,524	78,800
Money market investments	**4,074**	4,078	7,525
Total cash and cash equivalents	**197,174**	497,905	262,957
Investment securities available-for-sale, at fair value			
U.S. Government-sponsored agencies	**661,221**	680,149	546,692
Mortgage-backed securities	**960,462**	1,020,178	1,060,914
States and political subdivisions	**259,581**	273,325	297,171
Other securities	**205,096**	201,511	184,844
Investment securities available-for-sale	**2,086,360**	2,175,163	2,089,621
Investment securities held-to-maturity, at amortized cost (fair value $130,053, $157,720 and $138,691 respectively)	**134,444**	162,138	144,016
Federal Home Loan Bank stock, at cost	**41,170**	38,809	42,266
Residential loans held for sale	**13,313**	16,634	15,856
Loans:			
Commercial	**1,692,521**	1,629,885	1,598,071
Commercial real estate	**1,308,287**	1,386,367	1,406,883
Residential real estate	**539,297**	484,896	492,099
Consumer credit, net of unearned income	**1,210,260**	1,198,855	1,219,268
Total loans	**4,750,365**	4,700,003	4,716,321
Allowance for loan losses	**(64,138)**	(67,790)	(71,632)
Net loans	**4,686,227**	4,632,213	4,644,689
Premises and equipment, net	**47,277**	122,865	123,062
Accrued interest receivable	**50,427**	53,344	54,260
Goodwill	**159,198**	113,350	113,350
Other intangible assets	**32,679**	20,813	21,372
Company-owned life insurance	**211,853**	198,038	198,338
Assets held for sale	**31,065**		69,895
Other assets	**141,298**	118,243	140,206
Total assets	**$ 7,832,485**	$ 8,149,515	$ 7,919,888
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 840,501**	$ 877,870	$ 844,913
Interest-bearing:			

NOW	**1,427,485**	1,449,202	1,328,923
Savings	**653,448**	437,702	411,412
Money market	**690,391**	925,296	868,794
Time	**2,262,717**	2,631,424	2,629,834
Total deposits	**5,874,542**	6,321,494	6,083,876
Short-term borrowings	**527,033**	312,911	301,535
Other borrowings	**612,129**	747,545	772,215
Accrued expenses and other liabilities	**171,362**	125,196	119,499
Total liabilities	**7,185,066**	7,507,146	7,277,125
Shareholders Equity			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding			
Common stock, $1 stated value, 150,000 shares authorized, 66,200, 66,503 and 66,406 shares issued and outstanding, respectively	**66,200**	66,503	66,406
Capital surplus	**562,959**	565,106	564,691
Retained earnings	**41,885**	35,873	32,187
Accumulated other comprehensive loss, net of tax	**(23,625)**	(25,113)	(20,521)
Total shareholders equity	**647,419**	642,369	642,763
Total liabilities and shareholders equity	**$ 7,832,485**	$ 8,149,515	$ 7,919,888

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENT OF INCOME (unaudited)

(dollars in thousands, except per share data)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Interest Income				
Loans including fees:				
Taxable	**$ 82,561**	$ 80,578	**$ 245,055**	$ 234,627
Nontaxable	**5,502**	5,065	**16,118**	14,510
Investment securities, available-for-sale:				
Taxable	**23,054**	22,230	**68,591**	66,468
Nontaxable	**3,005**	4,349	**9,141**	15,195
Investment securities, held-to-maturity, taxable	**1,611**	1,618	**5,140**	5,107
Money market investments	**215**	161	**6,133**	1,404
Total interest income	**115,948**	114,001	**350,178**	337,311
Interest Expense				
Deposits	**45,064**	44,406	**145,188**	125,460
Short-term borrowings	**5,447**	4,953	**13,011**	12,878
Other borrowings	**10,219**	12,334	**30,618**	37,928
Total interest expense	**60,730**	61,693	**188,817**	176,266
Net interest income	**55,218**	52,308	**161,361**	161,045
Provision for loan losses			**2,445**	7,000
Net interest income after provision for loan losses	**55,218**	52,308	**158,916**	154,045
Noninterest Income				
Wealth management fees	**4,554**	4,710	**14,267**	14,859
Service charges on deposit accounts	**11,496**	10,596	**32,965**	31,188
ATM fees	**3,771**	3,043	**10,487**	8,906
Mortgage banking revenue	**1,208**	1,045	**3,298**	2,835
Insurance premiums and commissions	**8,889**	8,761	**29,682**	29,205
Investment product fees	**2,675**	2,041	**8,285**	6,323
Company-owned life insurance	**2,419**	2,284	**7,184**	6,766
Net securities gains (losses)	**(472)**	789	**(3,163)**	697
Gain (loss) on derivatives	**170**	(67)	**(22)**	1,953
Gain on branch divestiture				3,036
Gain on sale leaseback	**774**		**947**	
Other income	**2,087**	3,361	**7,137**	10,471
Total noninterest income	**37,571**	36,563	**111,067**	116,239
Noninterest Expense				
Salaries and employee benefits	**39,638**	36,789	**122,534**	115,817
Occupancy	**5,898**	5,059	**17,787**	15,171

Equipment	**2,683**	3,052	**8,580**	9,676
Marketing	**1,738**	2,738	**6,291**	7,572
Data processing	**4,656**	4,404	**14,537**	13,520
Communication	**2,337**	2,151	**7,069**	6,850
Professional fees	**1,740**	1,845	**5,548**	5,681
Loan expense	**1,541**	1,454	**4,585**	4,338
Supplies	**795**	852	**2,584**	2,550
Loss on extinguishment of debt	**66**		**1,300**	
Impairment of long-lived assets		218	**1,163**	433
Other expense	**4,403**	4,310	**14,984**	13,441
Total noninterest expense	**65,495**	62,872	**206,962**	195,049
Income before income taxes	**27,294**	25,999	**63,021**	75,235
Income tax expense	**4,730**	4,985	**10,116**	13,365
Net income	**$ 22,564**	$ 21,014	**$ 52,905**	$ 61,870
Net income per common share				
Basic net income per share	**$ 0.35**	$ 0.32	**$ 0.81**	$ 0.93
Diluted net income per share	**0.34**	0.32	**0.80**	0.93
Weighted average number of common shares outstanding				
Basic	**65,601**	65,823	**65,709**	66,370
Diluted	**65,658**	65,853	**65,766**	66,395
Dividends per common share	**$ 0.22**	$ 0.21	**$ 0.66**	$ 0.63

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

(dollars and shares in thousands)	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity	Comprehensive Income
Balance, December 31, 2005	67,649	$ 67,649	$ 591,930	$ 12,074	$ (21,755)	$ 649,898	
Net income				61,870		61,870	$ 61,870
Unrealized net securities gains, net of $1,482 tax					1,344	1,344	1,344
Reclassification adjustment for securities gains included in net income, net of $(284) tax					(413)	(413)	(413)
Reclassification adjustment on cash flow hedges, net of $196 tax					303	303	303
Adjustment to stock issued for prior acquisitions	(1)	(1)	(15)			(16)	
Cash dividends				(41,757)		(41,757)	
Stock repurchased	(1,447)	(1,447)	(28,012)			(29,459)	
Exercise of stock options, including tax benefits	36	36	655			691	
Stock based compensation expense			251			251	
Stock issued (forfeited) under restricted stock and stock compensation plans	169	169	(118)			51	
Balance, September 30, 2006	66,406	$ 66,406	$ 564,691	$ 32,187	$ (20,521)	$ 642,763	$ 63,104
Balance, December 31, 2006	**66,503**	**$ 66,503**	**$ 565,106**	**$ 35,873**	**$ (25,113)**	**$ 642,369**	
Net income				**52,905**		**52,905**	**$ 52,905**
Unrealized net securities losses, net of $(1,115) tax					**(1,957)**	**(1,957)**	**(1,957)**
Reclassification adjustment for securities losses included in net income, net of $1,271 tax					**1,892**	**1,892**	**1,892**
Reclassification adjustment on cash flow hedges, net of $193 tax					**299**	**299**	**299**

Amortization of additional pension liability recognized under FAS 158, net of $837 tax					**1,254**	**1,254**	**1,254**
Adjustment to initially apply FASB interpretation No. 48				**(3,368)**		**(3,368)**	
Adjustment for adoption of EITF No. 06-5				**(118)**		**(118)**	
Cash dividends				**(43,407)**		**(43,407)**	
Stock repurchased	**(228)**	**(228)**	**(3,850)**			**(4,078)**	
Exercise of stock options, including tax benefits	**7**	**7**	**68**			**75**	
Stock based compensation expense			**949**			**949**	
Stock issued (forfeited) under restricted stock and stock compensation plans	**(82)**	**(82)**	**134**			**52**	
Adjustment for St. Joseph Capital Corp. stock options			**552**			**552**	
Balance, September 30, 2007	**66,200**	**$ 66,200**	**$ 562,959**	**$ 41,885**	**$ (23,625)**	**$ 647,419**	**$ 54,393**

Comprehensive income for the quarters ended September 30, 2007 and 2006 was $36.3 million and $45.3 million, respectively.

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

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

	Nine Months Ended September 30,	
(dollars in thousands)	**2007**	**2006**
Cash Flows From Operating Activities		
Net income	**$ 52,905**	$ 61,870
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**6,276**	10,173
Amortization of other intangible assets and goodwill impairment	**2,596**	1,831
Net discount accretion on investment securities	**(1,881)**	(1,605)
Restricted stock expense (benefit)	**728**	(437)
Stock option expense	**221**	688
Provision for loan losses	**2,445**	7,000
Net securities (gains) losses	**3,163**	(697)
Gain on branch divestiture		(3,036)
Gain on sale leaseback	**(947)**	
(Gain) loss on derivatives	**22**	(1,953)
Net gains on sales and write-downs of loans and other assets	**(1,021)**	(1,453)
Loss on retirement of debt	**1,300**	
FHLB stock dividend		(45)
Increase in cash surrender value of company owned life insurance	**(5,123)**	(4,874)
Residential real estate loans originated for sale	**(195,879)**	(186,012)
Proceeds from sale of residential real estate loans	**202,000**	216,436
Decrease in interest receivable	**5,140**	1,309
Increase in other assets	**(9,058)**	(12,659)
Decrease in accrued expenses and other liabilities	**(19,491)**	(470)
Total adjustments	**(9,509)**	24,196
Net cash flows provided by operating activities	**43,396**	86,066
Cash Flows From Investing Activities		
Cash and cash equivalents of acquired subsidiaries	**17,429**	
Purchase of subsidiaries	**(78,109)**	
Purchases of investment securities available-for-sale	**(644,936)**	(471,002)
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**630,865**	394,832
Proceeds from sales of investment securities available-for-sale	**180,257**	298,124
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**27,018**	22,212
Proceeds from redemption of FHLB stock	**758**	591
Proceeds from branch divestiture		10,511
Proceeds from sale of loans	**11,712**	26,062
Net principal collected from loan customers	**256,056**	109,318
Proceeds from sale of premises and equipment and other assets	**102,935**	1,932
Purchase of premises and equipment	**(5,826)**	(7,882)

Net cash flows provided by investing activities	**498,159**	384,698
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Noninterest-bearing demand deposits	**(76,669)**	(46,026)
Savings, NOW and money market deposits	**(301,237)**	(366,334)
Time deposits	**(431,733)**	53,473
Short-term borrowings	**200,803**	(1,230)
Payments for maturities on other borrowings	**(21,541)**	(179,632)
Proceeds from issuance of other borrowings	**25,000**	
Payments related to retirement of debt	**(189,551)**	
Cash dividends paid	**(43,407)**	(41,757)
Common stock repurchased	**(4,078)**	(29,459)
Proceeds from exercise of stock options, including tax benefit	**75**	691
Common stock issued under restricted stock and stock compensation plans	**52**	51
Net cash flows used in financing activities	**(842,286)**	(610,223)
Net decrease in cash and cash equivalents	**(300,731)**	(139,459)
Cash and cash equivalents at beginning of period	**497,905**	402,416
Cash and cash equivalents at end of period	**$ 197,174**	$ 262,957
Total interest paid	**$ 189,803**	$ 171,424
Total taxes paid (net of refunds)	**$ 9,787**	$ 8,243

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

OLD NATIONAL BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, goodwill and intangibles, derivative financial instruments and income taxes are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of September 30, 2007 and 2006, and December 31, 2006, and the results of its operations for the three and nine months ended September 30, 2007 and 2006. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National s Annual Report for the year ended December 31, 2006.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2007 presentation. Such reclassifications had no effect on net income.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

FASB Interpretation No. 48 In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 became effective for the Company on January 1, 2007. The impact of adopting FIN 48 is discussed in Note 14 to the consolidated financial statements.

SFAS No. 157 In September 2006, the FASB issued Statement No. 157 *Fair Value Measurements*. The standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The new standard is effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS No. 157 on the consolidated financial statements.

SFAS No. 159 In February 2007, the FASB issued Statement No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities.* The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS No. 159 on the consolidated financial statements.

EITF 06-5 In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-5, *Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance*). This Issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the Issue discusses whether the cash surrender value should be discounted when the policyholder is contractually limited in its ability to surrender a policy. EITF 06-5 became effective for the Company on January 1, 2007 and resulted in a $0.1 million reduction to retained earnings.

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NOTE 3 ACQUISITION

On February 1, 2007, Old National acquired St. Joseph Capital Corporation ("St. Joseph), a banking franchise headquartered in Mishawaka, Indiana, for $78.1 million, including acquisition costs. Pursuant to the merger agreement, the shareholders of St. Joseph received $40.00 in cash for each share of St. Joseph stock in an all-cash transaction. Goodwill of $45.8 million was recorded, of which none is deductible for tax purposes. In addition, intangible assets totaling $14.5 million related to core deposits and customer relationships were recorded and are being amortized over 10 to 11 years. See Note 9 to the consolidated financial statements for additional information. On the date of acquisition, unaudited financial statements of St. Joseph showed assets of $452.9 million, which included $336.6 million of loans and $78.6 million of securities, $357.3 million of deposits and year-to-date net interest income and other income of $0.8 million and net loss of $3.3 million.

NOTE 4 DIVESTITURES

During the first quarter of 2006, Old National sold its financial center located in O Fallon, Illinois, selling approximately $27.9 million in loans and assigning $22.2 million in deposits. The financial center was in a market no longer considered consistent with the Company s strategy. The sale resulted in a pre-tax gain of $3.0 million which was included in income from continuing operations during the first quarter of 2006.

NOTE 5 NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during each period. Diluted net income per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. At September 30, 2007 and 2006, stock options to purchase approximately 5.8 million and 5.9 million shares, respectively, and restricted stock of 0.4 million shares were excluded from the computation of diluted net income per share because their inclusion would have been anti-dilutive.

The following table reconciles basic and diluted net income per share for the three months ended September 30:

(dollars and shares in thousands, except per share data)	**Three Months Ended September 30, 2007**			**Three Months Ended September 30, 2006**		
	Income	**Shares**	**Amount**	**Income**	**Shares**	**Amount**
Basic Net Income Per Share						
Income from operations	**$ 22,564**	**65,601**	**$ 0.35**	$ 21,014	65,823	$ 0.32
Effect of dilutive securities:						
Restricted stock		**34**			25	
Stock options		**23**			5	
Diluted Net Income Per Share						
Income from operations and assumed conversions	**$ 22,564**	**65,658**	**$ 0.34**	$ 21,014	65,853	$ 0.32

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The following table reconciles basic and diluted net income per share for the nine months ended September 30:

(dollars and shares in thousands, except per share data)	Nine Months Ended September 30, 2007			Nine Months Ended September 30, 2006		
	Income	**Shares**	**Amount**	**Income**	**Shares**	**Amount**
Basic Net Income Per Share						
Income from continuing operations	**$ 52,905**	**65,709**	**$ 0.81**	$ 61,870	66,370	$ 0.93
Effect of dilutive securities:						
Restricted stock		**30**			17	
Stock options		**27**			8	
Diluted Net Income Per Share						
Income from operations and assumed conversions	**$ 52,905**	**65,766**	**$ 0.80**	$ 61,870	66,395	$ 0.93

NOTE 6 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at September 30, 2007 and December 31, 2006 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2007				
Available-for-sale				
U.S. Government-sponsored agencies	**$ 660,311**	**$ 3,404**	**$ (2,494)**	**$ 661,221**
Mortgage-backed securities	**991,217**	**1,137**	**(31,892)**	**960,462**
States and political subdivisions	**253,497**	**6,469**	**(385)**	**259,581**
Other securities	**208,890**	**472**	**(4,266)**	**205,096**
Total available-for-sale securities	**$ 2,113,915**	**$ 11,482**	**$ (39,037)**	**$ 2,086,360**
Held-to-maturity				
Mortgage-backed securities	**$ 112,047**	**$**	**$ (4,232)**	**$ 107,815**
Other securities	**22,397**		**(159)**	**22,238**
Total held-to-maturity securities	**$ 134,444**	**$**	**$ (4,391)**	**$ 130,053**
December 31, 2006				
Available-for-sale				
U.S. Government-sponsored agencies	$ 685,809	$ 1,881	$ (7,541)	$ 680,149
Mortgage-backed securities	1,049,712	1,733	(31,267)	1,020,178
States and political subdivisions	264,343	9,095	(113)	273,325
Other securities	202,945	1,384	(2,818)	201,511
Total available-for-sale securities	$ 2,202,809	$ 14,093	$ (41,739)	$ 2,175,163

Held-to-maturity								
Mortgage-backed securities	$	126,800	$		$	(4,312)	$	122,488
Other securities		35,338				(106)		35,232
Total held-to-maturity securities	$	162,138	$		$	(4,418)	$	157,720

Year-to-date proceeds from the sales of investment securities available-for-sale were $180.3 million in 2007 and $298.7 million in 2006. For the nine months ended September 30, 2007, realized gains were $0.9 million and losses were $4.1 million. For the nine months ended September 30, 2006, realized gains were $4.4 million and losses were $3.7 million.

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At September 30, 2007, Old National does not believe any individual unrealized loss represents other-than-temporary impairment. The unrealized losses are primarily attributable to changes in interest rates. Factors considered in evaluating the securities included whether the securities were backed by U.S. Government-sponsored agencies and credit quality concerns surrounding the recovery of the full principal balance. Old National has both the intent and ability to hold securities with any individual unrealized loss for a time necessary to recover the amortized cost.

NOTE 7 LOANS HELD FOR SALE

Residential loans held for sale are recorded at lower of cost or market value determined as of the balance sheet date. 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, 2007 and December 31, 2006, Old National had residential loans held for sale of $13.3 million and $16.6 million, respectively. As of September 30, 2007 and December 31, 2006, ineffectiveness related to the hedge of a portion of the residential loans held for sale was immaterial.

During the first nine months of 2007, commercial real estate loans held for investment of $10.2 million and commercial loans of $4.0 million were transferred to loans held for sale at the lower of cost or market, resulting in a $2.5 million reduction to the allowance for loan losses.

NOTE 8 ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses was as follows:

	Nine Months Ended September 30,	
(dollars in thousands)	**2007**	**2006**
Balance, January 1	**$ 67,790**	$ 78,847
Additions:		
Provision charged to expense	**2,445**	7,000
Allowance of acquired bank	**5,699**	
Deductions:		
Write-downs from loans transferred to held for sale	**2,527**	2,770
Loans charged-off	**17,963**	18,391
Recoveries	**(8,694)**	(6,946)
Net charge-offs	**11,796**	14,215
Balance, September 30	**$ 64,138**	$ 71,632

Individually impaired loans were as follows:

(dollars in thousands)	**September 30, 2007**	**December 31, 2006**
Impaired loans without a valuation allowance	**$ 5,648**	$ 11,833
Impaired loans with a valuation allowance	**33,757**	20,476
Total impaired loans	**$ 39,405**	$ 32,309
Allowance for loan losses related to impaired loans	**$ 12,729**	$ 7,080

For the nine months ended September 30, 2007 and 2006, the average balance of impaired loans was $43.3 million and $38.9 million, respectively, for which no interest income 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.

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Nonperforming loans were as follows:

(dollars in thousands)	September 30, 2007	December 31, 2006
Nonaccrual loans	**$ 49,312**	$ 41,518
Renegotiated loans		52
Total nonperforming loans	**$ 49,312**	$ 41,570
Past due loans (90 days or more and still accruing)	**$ 2,173**	$ 2,141

Nonperforming loans includes both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Nonaccrual loans related to the St. Joseph acquisition amounted to $13.1 million.

NOTE 9 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2007 and 2006:

(dollars in thousands)	Community Banking	Other	Total
Balance, January 1, 2007	**$ 73,477**	**$ 39,873**	**$ 113,350**
Goodwill acquired during the period	**45,848**		**45,848**
Balance, September 30, 2007	**$ 119,325**	**$ 39,873**	**$ 159,198**
Balance, January 1, 2006	$ 73,477	$ 39,798	$ 113,275
Adjustments to goodwill acquired in prior period		75	75
Balance, September 30, 2006	$ 73,477	$ 39,873	$ 113,350

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2007 and determined that no impairment existed as of this date. Old National recorded $45.8 million of goodwill in 2007 associated with the acquisition of St. Joseph Capital Corporation.

The gross carrying amount and accumulated amortization of other intangible assets at September 30, 2007 and December 31, 2006 was as follows:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
September 30, 2007			
Amortized intangible assets:			
Core deposit	**$ 15,623**	**$ (5,559)**	**$ 10,064**
Customer business relationships	**25,553**	**(7,084)**	**18,469**
Customer loan relationships	**4,413**	**(267)**	**4,146**
Total intangible assets	**$ 45,589**	**$ (12,910)**	**$ 32,679**

December 31, 2006						
Amortized intangible assets:						
Core deposit	$	5,574	$	(4,615)	$	959
Customer business relationships		25,553		(5,699)		19,854
Total intangible assets	$	31,127	$	(10,314)	$	20,813

Other intangible assets consist primarily of core deposit intangibles and customer relationship intangibles and are being amortized on a straight-line or accelerated basis over their estimated useful lives, generally over a period of 10 to 25 years. Old National reviews intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Old National recorded $14.5 million of other intangibles associated with the acquisition of St. Joseph Capital Corporation in 2007. Total amortization expense associated with other intangible assets for the nine months ended September 30 was $2.6 million in 2007 and $1.8 million in 2006.

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Estimated amortization expense for the future years is as follows:

(dollars in thousands)		
2007 remaining	$	900
2008		3,465
2009		3,302
2010		3,118
2011		2,972
Thereafter		18,922
Total	$	32,679

NOTE 10 ASSETS HELD FOR SALE

In March 2007, Old National committed to sell certain bank branch properties. A letter of intent was executed in May 2007 to sell eighty-five properties to an unrelated party for approximately $205 million and to lease them back pursuant to individual ten, fifteen, and twenty-four year triple-net leases. The properties are to be sold in a series of transactions.

The first transaction closed September 19, 2007, and included 25 banking and one insurance property. Old National received cash proceeds of $98.2 million, net of selling costs. The properties sold had a carrying value of $41.9 million, resulting in a gain of $56.3 million. The majority of the gain will be deferred and amortized over the term of the leases; $0.6 million is included in current earnings.

Old National has agreed to lease each of these 26 properties back from the buyers for terms expiring September 30, 2031. Under each of the lease agreements, Old National has the right at its option to extend the term of the lease for four additional successive terms of five years each, upon specified terms and conditions. Old National is obligated to pay base rents for the properties in an aggregate annual amount of $9.0 million through September 30, 2027; no rent is payable for the final four years of the initial 24-year term. For financial reporting purposes, the rents will be expensed ratably over the 24-year term at an annual rate of $7.5 million.

The carrying amounts of the remaining assets included as held for sale were as follows at September 30, 2007:

(dollars in thousands)		
Assets held for sale:		
Land	**$**	**9,794**
Building and improvements		**69,209**
Total		**79,003**
Accumulated depreciation		**(47,938)**
Assets held for sale net	**$**	**31,065**

The second transaction closed October 19, 2007, subsequent to the quarter ended September 30, 2007. This transaction included 40 banking properties. Old National received cash proceeds of $67.0 million, net of selling costs. The properties sold had a carrying value of $19.8 million, resulting in a gain of $47.2 million. The majority of the gain will be deferred and amortized over the term of the leases; $3.8 million will be recognized during the fourth quarter.

Old National has agreed to lease each of these 40 properties back from the buyers for terms expiring either October 31, 2017 or October 31, 2022. Under each of the lease agreements, Old National has the right at its option to extend the term of the lease for four additional successive terms of five years each, upon specified terms and conditions. Old National is obligated to pay base rents for the properties in an aggregate amount of $5.5 million during the first year.

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The Company continues to market the remaining assets classified as held for sale and anticipates that the majority will be sold during the next 60 to 90 days.

NOTE 11 FINANCING ACTIVITIES

The following table summarizes Old National s other borrowings at September 30, 2007, and December 31, 2006:

(dollars in thousands)	**September 30, 2007**	December 31, 2006
Old National Bancorp:		
Medium-term notes, Series 1997 (fixed rates 3.50% to 6.80%) maturing November 2007 to June 2008	**$ 105,000**	$ 110,000
Senior unsecured note (fixed rate 5.00%) maturing May 2010	**50,000**	50,000
Junior subordinated debenture (fixed rates 6.27% to 8.00% and variable rate 8.28%) maturing April 2032 to March 2035	**108,000**	100,000
SFAS 133 fair value hedge and other basis adjustments	**(2,533)**	(4,549)
Old National Bank:		
Securities sold under agreements to repurchase (fixed rate 4.06%) maturing September 2012	**25,000**	74,000
Federal Home Loan Bank advances (fixed rates 4.84% to 8.34%) maturing July 2008 to January 2023	**126,978**	219,493
Senior unsecured bank notes (fixed rate 3.95%) maturing February 2008	**50,000**	50,000
Subordinated bank notes (fixed rate 6.75%) maturing October 2011	**150,000**	150,000
Capital lease obligation	**4,436**	4,461
SFAS 133 fair value hedge and other basis adjustments	**(4,752)**	(5,860)
Total other borrowings	**$ 612,129**	$ 747,545

Contractual maturities of other borrowings at September 30, 2007, were as follows:

(dollars in thousands)	
Due in 2007	$ 5,009
Due in 2008	151,037
Due in 2009	2,040
Due in 2010	75,043
Due in 2011	150,046
Thereafter	236,239
SFAS 133 fair value hedge and other basis adjustments	(7,285)
Total	$ 612,129

FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances had weighted-average rates of 5.19% and 5.37% at September 30, 2007, and December 31, 2006, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 150% of outstanding debt.

SUBORDINATED BANK NOTES

Subordinated bank notes qualify as Tier 2 Capital for regulatory purposes, subject to certain limitations, 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.

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JUNIOR SUBORDINATED DEBENTURES

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

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. 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.

During February 2007, Old National acquired St. Joseph Capital Trust I and St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust I and St. Joseph Capital Trust II. St. Joseph Capital Trust I issued $3.0 million in preferred securities in July 2003. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 305 basis points, payable quarterly and maturing on July 11, 2033. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust I. St. Joseph Capital Trust II issued $5.0 million in preferred securities in March 2005. The preferred securities have a cumulative annual distribution rate of 6.27% until March 2010 when it will carry a variable rate of interest priced at the three-month LIBOR plus 175 basis points, payable quarterly and maturing on March 17, 2035. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust II. Old National 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 September 30, 2008 (for debentures owned by St. Joseph Capital Trust I) and on or after March 31, 2010 (for debentures owned by St. Joseph Capital Trust II), and in whole (but not in part) following the occurrence and continuance of certain adverse federal income tax or capital treatment events.

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 borrowing rate for similar types of borrowing arrangements.

At September 30, 2007, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)		
2007 remaining	$	93
2008		371
2009		390
2010		390
2011		390
Thereafter		12,094
Total minimum lease payments		13,728
Less amounts representing interest		9,292
Present value of net minimum lease payments	$	4,436

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NOTE 12 EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN

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

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

Old National contributed $0.8 million to cover benefit payments from the Restoration Plan during the first nine months of 2007. Old National expects to contribute an additional $0.2 million to cover benefit payments from the Restoration Plan during the remainder of 2007.

The net periodic benefit cost and its components were as follows for the three and nine months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2007**	**2006**	**2007**	**2006**
Interest cost	**$ 586**	$ 689	**$ 1,757**	$ 2,086
Expected return on plan assets	**(833)**	(1,034)	**(2,498)**	(2,928)
Recognized actuarial loss	**193**	218	**579**	735
Settlement	**451**	360	**1,050**	1,080
Net periodic benefit cost	**$ 397**	$ 233	**$ 888**	$ 973

NOTE 13 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, 2007, 6.4 million shares were outstanding under the plan, including 5.8 million stock options and 0.6 million shares of restricted stock, 0.5 million shares have been exercised or released, and 0.7 million shares were available for issuance.

Stock Options

Old National recorded $0.1 million of stock based compensation expense, net of tax, during the first nine months of 2007 as compared to $0.4 million for the first nine months of 2006. The 2006 expense includes costs related to the modification of certain options in addition to the pro-rata vesting of options during the year.

The Company granted 218,100 stock options during 2007 and substituted 47,604 Old National stock options for St. Joseph stock options in connection with its acquisition of St. Joseph. Using the Black-Scholes option pricing model, the Company estimated the fair value of the stock options granted during 2007 to be $0.5 million. The Company will expense this amount ratably over the three-year vesting period. The assumptions used in the option pricing model and the determination of stock option expense were an expected volatility of 15.3%; a risk free interest rate of 4.85%; an expected option term of six years; a 4.23% dividend yield; and a forfeiture rate of 7%. These options expire in ten years.

Restricted Stock

Old National recorded expense of $0.5 million, net of tax benefit, during the first nine months of 2007, compared to income of $0.3 million during the first nine months of 2006 related to the vesting of restricted share awards. Included in the first nine months of 2007 and 2006 is the reversal of $1.4 million and $2.4 million of expense, respectively, associated with certain performance-based restricted stock grants.

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The Company granted 123,000 shares of performance based restricted stock awards to certain key officers during 2007, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets. In addition, the Company granted 56,000 time-based restricted stock awards to certain key officers during 2007, with shares vesting at the end of a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of September 30, 2007, unrecognized compensation expense was estimated to be $5.2 million for unvested restricted share awards.

NOTE 14 INCOME TAXES

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007 and, as the cumulative effect of applying its provisions, recognized a $3.4 million reduction to the balance of retained earnings on that date with a corresponding decrease in deferred tax assets which are reported as other assets on the balance sheet. The amount of unrecognized tax benefits as of January 1, 2007 totaled $10.3 million, all of which, if recognized, would affect the effective tax rate. Unrecognized state income tax benefits are reported net of their related deferred federal income tax benefit.

It is the Company s policy to recognize interest and penalties accrued relative to unrecognized tax benefits in their respective federal or state income tax accounts. As of January 1, 2007, $2.7 million in interest, and no penalties, had been accrued on the Company s balance sheet.

The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. On August 21, 2007, the Company received a notice from the Internal Revenue Service (IRS) that the Joint Committee on Taxation had concluded their review of the audit for the years 2002, 2003 and 2004 and had taken no exceptions to the conclusions reached by the IRS. The IRS has informed the Company of its intent to audit tax year 2005. The Company incurred net operating losses in 2003 and 2004 that were utilized in 2005. The IRS could adjust the net operating loss carryover used on the 2005 tax return during the 2005 audit. Therefore, the 2003 and 2004 years have not been fully effectively settled. The federal statute of limitations on the 2002 year has been extended to December 31, 2007; however the Company determined that the conclusion of the 2003 and 2004 audit, as evidenced by the IRS notice, effectively settled the year 2002 as well as several items from 2003 and 2004 that the IRS notice indicated were effectively settled. As a result of the conclusion of the audit, the Company released a total of $1.8 million from its unrecognized tax benefit liability. The balance of the Company s unrecognized tax benefits remaining at September 30, 2007 is $9.0 million.

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 and nine months ended September 30:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(dollars in thousands)	**2007**	2006	**2007**	2006
Provision at statutory rate of 35%	**$ 9,553**	$ 9,100	**$ 22,057**	$ 26,332
Tax-exempt income	**(3,564)**	(3,870)	**(10,604)**	(12,150)
Settlement of unrecognized tax benefit	**(1,847)**		**(1,847)**	
Other, net	**588**	(245)	**510**	(817)
Income tax expense	**$ 4,730**	$ 4,985	**$ 10,116**	$ 13,365
Effective tax rate	**17.3%**	19.2%	**16.1%**	17.8%

For the three months and nine months ended September 30, 2007, the effective tax rate on income from continuing operations was lower than for the three months and nine months ended September 30, 2006. The lower effective tax rate for the three months and nine months ended September 30, 2007, was primarily a result of a decrease of a portion of the unrecognized tax benefit liability.

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NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS

Old National designates its derivatives based upon criteria established by SFAS No. 133, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment to FASB Statement No. 133*, and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*.

The following table summarizes the derivative financial instruments utilized by Old National:

	September 30, 2007			December 31, 2006		
	Notional	Estimated Fair Value		Notional	Estimated Fair Value	
(dollars in thousands)	Amount	Gain	Loss	Amount	Gain	Loss
Fair Value Hedges						
Receive fixed interest rate swaps	**$ 246,766**	**$**	**$ (3,742)**	$ 724,609	$	$ (20,430)
Forward mortgage loan contracts	**13,115**		**(79)**	16,266	43	
Stand Alone Derivatives						
Interest rate lock commitments	**12,969**	**43**		17,750	7	
Forward mortgage loan contracts	**12,923**		**(35)**	17,682	22	
Matched Customer Hedges						
Customer interest rate swaps	**405,323**	**6,034**	**(571)**	417,132	4,269	(1,866)
Counterparty interest rate swaps	**405,323**	**571**	**(6,034)**	417,132	1,866	(4,269)
Customer interest rate cap & collars	**4,164**	**21**	**(3)**	5,459	20	(11)
Counterparty interest rate cap & collars	**4,164**	**3**	**(21)**	5,459	11	(20)
Customer commodity swaps	**13,426**		**(896)**	13,426	587	
Counterparty commodity swaps	**13,426**	**896**		13,426		(587)
Total	**$ 1,131,599**	**$ 7,568**	**$ (11,381)**	$ 1,648,341	$ 6,825	$ (27,183)

Old National s receive-fixed interest rate swaps decreased $477.8 million during the first nine months of 2007 primarily as a result of the Company s termination of certain hedges related to subordinated debt, brokered and retail certificates of deposit having notional amounts of $150.0 million, $133.1 million and $173.1 million, respectively.

Old National enters into certain matched customer hedges to accommodate the business needs of its customers. Upon the origination of a customer hedge, Old National simultaneously enters into an offsetting contract with a third party to mitigate its exposure.

NOTE 16 COMMITMENTS AND CONTINGENCIES

LITIGATION

In the normal course of business, various legal actions and proceedings, which are being vigorously defended, are pending against Old National and its affiliates. Management does not believe any of these claims will have a material impact on Old National s results of operations.

CREDIT-RELATED FINANCIAL INSTRUMENTS

In the normal course of business, Old National s banking affiliates have entered into various agreements to extend credit, including loan commitments of $1.228 billion and standby letters of credit of $114.5 million at September 30, 2007. At December 31, 2006, loan commitments were $1.165 billion, commercial letters of credit were $40 thousand and standby letters of credit were $121.7 million. These commitments are not reflected in the consolidated financial

statements. Management believes the reserve for unfunded commitments is adequate as of September 30, 2007.
At September 30, 2007 and December 31, 2006, Old National had credit extensions of $56.7 million and $75.4 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National s clients. At September 30, 2007 and December 31, 2006, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $42.3 million and $54.5 million, respectively. Old National did not provide collateral for the remaining credit extensions.

NOTE 17 FINANCIAL GUARANTEES

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FIN 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* which requires the Company to record the instruments at fair value. 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, 2007, the notional amount of standby letters of credit was $114.5 million, which represents the maximum amount of future funding requirements, and the carrying value was $0.4 million.

During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap has a notional amount of $9.6 million.

NOTE 18 SEGMENT INFORMATION

Old National operates in two operating 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. Other is comprised of the parent company and several smaller business units including insurance, wealth management, and brokerage. It includes unallocated corporate overhead and intersegment revenue and expense eliminations.

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. Intersegment sales and transfers are not significant.

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

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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 and nine months ended September 30:

(dollars in thousands)	Community Banking	Treasury	Other	Total
Three months ended September 30, 2007				
Net interest income	**$ 59,296**	**$ (3,366)**	**$ (712)**	**$ 55,218**
Provision for loan losses	**(106)**	**106**		
Noninterest income	**19,418**	**1,906**	**16,247**	**37,571**
Noninterest expense	**49,191**	**954**	**15,350**	**65,495**
Income (loss) before income taxes	**29,629**	**(2,520)**	**185**	**27,294**
Income tax expense (benefit)	**6,479**	**(1,805)**	**56**	**4,730**
Segment profit (loss)	**23,150**	**(715)**	**129**	**22,564**
Total assets	**4,992,685**	**2,716,897**	**122,903**	**7,832,485**
Three months ended September 30, 2006				
Net interest income	$ 57,166	$ (3,481)	$ (1,377)	$ 52,308
Provision for loan losses	13	(13)		
Noninterest income	18,273	2,612	15,678	36,563
Noninterest expense	47,078	907	14,887	62,872
Income (loss) before income taxes	28,348	(1,763)	(586)	25,999
Income tax expense (benefit)	7,269	(2,105)	(179)	4,985
Segment profit (loss)	21,079	342	(407)	21,014
Total assets	4,921,550	2,794,930	203,408	7,919,888
Nine months ended September 30, 2007				
Net interest income	**$ 172,994**	**$ (9,512)**	**$ (2,121)**	**$ 161,361**
Provision for loan losses	**2,066**	**379**		**2,445**
Noninterest income	**55,634**	**3,035**	**52,398**	**111,067**
Noninterest expense	**153,536**	**3,392**	**50,034**	**206,962**
Income (loss) before income taxes	**73,026**	**(10,248)**	**243**	**63,021**
Income tax expense (benefit)	**16,462**	**(6,420)**	**74**	**10,116**
Segment profit (loss)	**56,564**	**(3,828)**	**169**	**52,905**
Total assets	**4,992,685**	**2,716,897**	**122,903**	**7,832,485**
Nine months ended September 30, 2006				
Net interest income	$ 177,748	$ (12,098)	$ (4,605)	$ 161,045
Provision for loan losses	7,580	(580)		7,000
Noninterest income	53,803	8,260	54,176	116,239
Noninterest expense	144,966	2,550	47,533	195,049
Income (loss) before income taxes	79,005	(5,808)	2,038	75,235
Income tax expense (benefit)	19,966	(7,244)	643	13,365
Segment profit	59,039	1,436	1,395	61,870
Total assets	4,921,550	2,794,930	203,408	7,919,888

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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 and nine months ended September 30, 2007 and 2006, and financial condition as of September 30, 2007, compared to September 30, 2006, and December 31, 2006. 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.

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.

Due to continued improvement in key measures of credit quality the Company did not record a provision for loan losses during the quarter. Criticized loans, or loans exhibiting a potential weakness that deserves management s close attention, decreased $10.7 million from June 30, 2007 to September 30, 2007. Classified loans, or loans with a well-defined weakness that jeopardizes the liquidation of the debt, decreased $1.6 million during the same time period and nonperforming loans decreased by $9.2 million. In addition, net charge-offs were 0.28% of average loans in the third quarter of 2007 compared to 0.31% in the second quarter of 2007 and 0.39% in the third quarter of 2006. Nonperforming loans totaled 1.04% of total loans at September 30, 2007, up from 0.88% at December 31, 2006, primarily as a result of the acquisition of St. Joseph Capital Corporation. The allowance for loan losses equaled 1.35% of total loans at September 30, 2007, compared to 1.44% at December 31, 2006 and 1.51% at September 30, 2006.

Due to the economic environment and the drive to improve credit quality, loan and deposit growth remains challenging. Total loans at September 30, 2007 increased 1.0% compared to December 31, 2006. Consumer and commercial loans experienced modest growth, but were offset by declines in commercial real estate loans. The Company continues to be cautious towards the real estate market in an effort to lower future potential credit risk. The September 30, 2007 loan balance includes $330.2 million related to St. Joseph Capital Corporation, which was acquired during the first quarter of 2007. Total deposits of $5.875 billion at September 30, 2007 decreased 7.1% from December of 2006 due to the competitive Midwest interest rate environment in which we operate and the Company s focused effort to reduce higher priced deposits. Year-over-year, deposits decreased $209.3 million. Included in total deposits at September 30, 2007 is $240.5 million of deposits associated with the recently acquired St. Joseph Capital Corporation.

Net income was $22.6 million for the three months ended September 30, 2007, an increase of $1.6 million from the $21.0 million recorded for the three months ended September 30, 2006. On a diluted per share basis, net income was $0.34 for the three months ended September 30, 2007 compared to $0.32 for the three months ended September 30, 2006. Old National reported net income of $52.9 million for the nine months ended September 30, 2007, a decrease of $9.0 million, or 14.5%, from the $61.9 million recorded for the nine months September 30, 2006. On a diluted per share basis, net income was $0.80 for the nine months ended September 30, 2007, compared to $0.93 for the nine months ended September 30, 2006. Included in net income during the first quarter of 2007 was approximately $5.0 million of expense, net of tax, or $0.08 on a diluted per share basis, associated with restructuring and productivity improvement initiatives.

During the third quarter of 2007, Old National sold 26 financial center locations, but plans to continue operating out of these locations under long-term operating leases. This sale is the second in a series of transactions the Company has entered into. The first transaction closed during the fourth quarter of 2006 and included the corporate offices located in Evansville, Indiana. A third transaction, which included an additional 40 financial centers, closed subsequent to quarter-end. The remaining 17 financial centers, currently classified as held-for-sale, continue to be actively marketed and management anticipates that the majority will be sold during the next 60 to 90 days.

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Reducing these non-earning assets will allow the Company to deploy the cash proceeds into interest earning assets or to pay-down wholesale funding. Occupancy expense will increase as a result of these transactions, however, management believes that the net interest margin and overall earnings should improve.

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the three and nine months ended September 30, 2007 and 2006:

	Three Months Ended September 30,		**%**	**Nine Months Ended September 30,**		**%**
(dollars in thousands)	**2007**	**2006**	**Change**	**2007**	**2006**	**Change**
Income Statement Summary:						
Net interest income	**$ 55,218**	$ 52,308	5.6%	**$ 161,361**	$ 161,045	0.2%
Provision for loan losses				**2,445**	7,000	(65.1)
Noninterest income	**37,571**	36,563	2.8	**111,067**	116,239	(4.4)
Noninterest expense	**65,495**	62,872	4.2	**206,962**	195,049	6.1
Other Data:						
Return on average equity	**14.22**%	13.40%		**11.08**%	12.96%	
Efficiency ratio	**67.46**	67.13		**72.56**	66.70	
Tier 1 leverage ratio	**7.66**	7.92		**7.66**	7.92	
Net charge-offs to average loans	**0.28**	0.39		**0.32**	0.39	

Net Interest Income

Net interest income is Old National s most significant component of earnings, comprising over 59% of revenues at September 30, 2007. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources and interest rate fluctuations. Other factors include prepayment risk on mortgage and investment-related assets and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from client deposits generally cost less than wholesale funding sources. Factors, such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on 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 $4.3 million and $4.8 million for the three months ended September 30, 2007 and 2006, respectively. Taxable equivalent adjustments for the nine months ended September 30, 2007 and 2006, were $12.8 million and $15.2 million, respectively.

Taxable equivalent net interest income was $59.5 million and $174.1 million for the three and nine months ended September 30, 2007, compared to $57.1 million and $176.2 million reported for the three and nine months ended September 30, 2006. The net interest margin for these same periods was 3.37% and 3.19% for the three and nine months ended September 30, 2007, compared to 3.15% and 3.17% for the three and nine months ended September 30, 2006. The increase in the quarterly comparison of the interest margin is primarily due to the change in the mix of interest earning assets and interest-bearing liabilities combined with a $1.6 million recovery of interest on a commercial real estate loan. The increase in the year-to-date net interest margin is primarily due to the $2.6 million recovery of interest on two commercial real estate loans during 2007.

Average earning assets were $7.067 billion for the three months ended September 30, 2007, compared to $7.262 billion for the three months ended September 30, 2006, a decrease of 2.7%, or $194.1 million. Average earning assets were $7.288 billion for the nine months ended September 30, 2007, compared to $7.413 billion for the nine months ended September 30, 2006, a decrease of 1.7%, or $125.2 million. Significantly affecting average earning assets at September 30, 2007 compared to September 30, 2006, was management s decision to reduce the size of the investment portfolio, the reduction in federal funds sold and the acquisition of St. Joseph. In addition, commercial and commercial real estate loans have been affected by continued weak loan demand in Old National s markets, more stringent loan underwriting standards and the Company s desire to lower future potential credit risk by being cautious towards the real estate market. During 2007, the Company sold $148.2 million of investment securities and $14.2 million of commercial and commercial real estate loans. Year over year, commercial loans, which have an average yield higher than the investment portfolio, have increased as a percent of interest earning assets.

Also affecting margin were decreases in borrowed funding due to the retirement of $89 million of Federal Home Loan Bank advances and $74 million of repurchase agreements in the first quarter of 2007. Old National also retired $23 million of Federal Home Loan Bank advances which were acquired from St. Joseph and a $15 million Federal Home Loan Bank advance acquired from St. Joseph also matured in the first quarter of 2007. In September 2007, Old National called $55 million of high cost brokered certificates of deposit. Year over year, long-term borrowings and brokered certificates of deposit, which have an average interest rate higher than deposits, have decreased as a percent of interest-bearing liabilities.

Provision for Loan Losses

There was no provision for loan losses during the three months ended September 30, 2007, with a $2.4 million provision for loan losses year-to-date. The 2007 provision compares to no provision and $7.0 million for the three and nine months ended September 30, 2006, respectively. The lower provision in 2007 is attributable to a decrease in net charge-offs combined with a decrease in total criticized and classified loans during 2007 and enhanced credit administration and underwriting functions.

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 consulting, investment products and insurance. Noninterest income for the three months ended September 30, 2007, was $37.6 million, an increase of $1.0 million, or 2.8%, from the $36.6 million reported for the three months ended September 30, 2006. For the nine months ended September 30, 2007, noninterest income was $111.1 million, a decrease of $5.2 million, or 4.4%, from the $116.2 million reported for the nine months ended September 30, 2006.

The $1.0 million increase from the third quarter of 2006 is primarily attributable to increased sales of investment products resulting in a $0.7 million increase in investment fee income, along with an upward adjustment in the service charge fee rate on deposit accounts resulting in a $0.9 million increase over the third quarter of 2006. Also included in non-interest income during the third quarter of 2007 are $0.8 million of gains related to the sale-leaseback transactions discussed in Note 10 to the consolidated financial statements. Partially offsetting these increases was a $1.3 million decrease in securities gains and a $0.4 million decline in customer derivative fee revenue.

Despite the improvement in investment product , service charge, and other fee income during the nine months ended September 30, 2007, non-interest income decreased due to a $2.0 million decrease in gains on derivative instruments and a $3.9 million decrease in net securities gains. In addition, the nine months ended September 30, 2006 contained a $3.0 million gain from the sale of the O Fallon, Illinois financial center.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2007, totaled $65.5 million, an increase of $2.6 million, or 4.2%, from the $62.9 million recorded for the three months ended September 30, 2006. For the nine months ended September 30, 2007, noninterest expense was $207.0 million, an increase of $11.9 million, or 6.1%, from the $195.0 million recorded for the nine months ended September 30, 2006.

Salaries and benefits is the largest component of noninterest expense. For the three months ended September 30, 2007, salaries and benefits were $39.6 million compared to $36.8 million for the three months ended September 30, 2006. For the nine months ended September 30, 2007, salaries and benefits amounted to $122.5 million compared to

$115.8 million for the nine months ended September 30, 2006. Due to improved performance, the Company is accruing performance-based compensation at a higher rate than in 2006. In addition, salaries and benefits expense in the third quarter of 2006 contained a $1.5 million reversal of certain performance-based incentives compared to a $0.7 million adjustment during the third quarter of 2007. Salaries and benefits expense for the nine months ended September 30, 2007 contained a $1.4 million reversal of certain performance-based incentives compared to a $4.4 million adjustment in 2006. Also included in salaries and benefits expense for the three and nine months ended September 30, 2007 is $0.8 million and $2.4 million, respectively, of personnel expense associated with the acquisition of St. Joseph Capital Corporation.

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Occupancy expense was $5.9 million and $17.8 million for the three and nine months ended September 30, 2007, compared to $5.1 million and $15.2 million for the three and nine months ended September 30, 2006. The increase is primarily related to the sale of the Company s corporate office buildings in Evansville, Indiana in December, 2006 and the lease of those buildings back to the Company. Old National Bank is obligated to pay annual rent of $6.6 million to lease those buildings from the landlords through December 31, 2029; no rent is payable for the final two years of the initial 25-year term. For financial reporting purposes, the rent will be expensed ratably over the 25-year term at an annual rate of $6.0 million. In September 2007 Old National sold 26 financial centers but plans to continue operating out of these financial centers under long-term operating leases. Old National is obligated to pay annual rent payments of $9.0 million for the next 20 years under the agreement. For financial reporting purposes, the rent will be expensed over the 24-year term at an annual rate of $7.5 million. Partially offsetting the increase in rent is a decrease in depreciation expense related to bank branch properties that have been sold or are currently classified as held for sale.

Marketing expense was $1.7 million and $6.3 million for the three and nine months ended September 30, 2007, compared to $2.7 million and $7.6 million for the three and nine months ended September 30, 2006. The decrease in marketing expense is the result of management s efforts to contain costs.

During 2007, Old National recorded a $1.3 million loss on the extinguishment of debt. The loss was related to the early retirement of Federal Home Loan Bank advances and repurchase agreements during the first quarter of 2007, and the termination of high cost certificates of deposits during the third quarter of 2007.

Impairment on long-lived assets totaled $1.2 million for the nine months ended September 30, 2007, an increase of approximately $0.7 million when compared to the nine months ended September 30, 2006. The increase was primarily attributable to impairment charges on buildings that the Company identified for consolidation and charges to terminate leases on buildings that the Company no longer occupies that occurred in the first quarter of 2007.

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 provision for income taxes on continuing operations, as a percentage of pre-tax income, was 17.3% for the three months ended September 30, 2007, compared to 19.2% for the three months ended September 30, 2006. The provision for income taxes on continuing operations, as a percentage of pre-tax income, was 16.1% for the nine months ended September 30, 2007, compared to 17.8% for the nine months ended September 30, 2006. The lower effective tax rate for the three months and nine months ended September 30, 2007, was primarily a result of the release of a portion of the unrecognized tax benefit liability. See Note 14 to the consolidated financial statements for additional information.

FINANCIAL CONDITION

Overview

Old National s assets at September 30, 2007, were $7.832 billion, a 1.1% decrease compared to September 30, 2006 assets of $7.920 billion, and an annualized decrease of 5.2% compared to December 31, 2006 assets of $8.150 billion. The planned reduction of the investment portfolio, the reduction in federal funds sold, the sale of our corporate office buildings in December 2006 and the sale of twenty-six bank branch properties in September 2007 have lowered our total assets, reducing the Company s reliance on long-term borrowings and brokered certificates of deposit. Partially offsetting the reduction in assets was the acquisition of St. Joseph. Year over year, long-term borrowings and brokered certificates of deposit, which have average interest rates higher than most types of deposits, have decreased as a percent of interest-bearing liabilities.

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Earning Assets

Old National s earning assets are comprised of investment securities, loans and loans held for sale, and money market investments. Earning assets were $7.030 billion at September 30, 2007, a decrease of 0.9% from September 30, 2006, and an annualized decrease of 6.3% since December 31, 2006.

Investment Securities

Old National classifies investment securities primarily as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in the Company s funding requirements. At September 30, 2007, 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. As of September 30, 2007, Old National had both the intent and ability to hold the securities for a time necessary to recover the amortized cost.

At September 30, 2007, the investment securities portfolio was $2.262 billion compared to $2.276 billion at September 30, 2006, a decrease of $13.9 million or 0.6%. Investment securities decreased $114.1 million at September 30, 2007, compared to December 31, 2006, an annualized decrease of 6.4%. Investment securities represented 32.2% of earning assets at September 30, 2007, compared to 32.1% at September 30, 2006, and 32.2% at December 31, 2006. During 2007, Old National sold $183.4 million of lower-yielding investment securities. The cash proceeds from these sales were used to purchase higher-yielding securities and to reduce long-term borrowings and brokered certificates of deposit. Stronger commercial loan demand in the future could result in increased investments in loans and a continued reduction in the investment securities portfolio.

Net unrealized losses have remained relatively constant. The investment securities available-for-sale portfolio had net unrealized losses of $27.6 million at September 30, 2007, a decrease of $5.3 million compared to net unrealized losses of $32.9 million at September 30, 2006, and a decrease of $0.1 million compared to net unrealized losses of $27.6 million at December 31, 2006.

The investment portfolio had an average duration of 3.30 years at September 30, 2007, compared to 3.12 years at September 30, 2006, and 2.90 years at December 31, 2006. The annualized average yields on investment securities, on a taxable equivalent basis, were 5.18% for the three months ended September 30, 2007, compared to 5.05% for the three months ended September 30, 2006, and 5.01% for the three months ended December 31, 2006. Average yields on investment securities, on a taxable equivalent basis, were 5.11%, 5.01% and 5.01% for the nine months ended September 30, 2007 and 2006, and for the year ended December 31, 2006, respectively.

Residential Loans Held for Sale

Residential loans held for sale were $13.3 million at September 30, 2007, compared to $15.9 million at September 30, 2006, and compared to $16.6 million at December 31, 2006. Residential loans held for sale are loans that are closed, but not yet purchased by investors. The amount of residential loans held for sale on the balance sheet varies depending on the amount of originations and timing of loan sales to the secondary market. The decrease in residential loans held for sale from September 30, 2006, is primarily attributable to increased efficiencies in processing loan sales and the timing of loan sales to the secondary market.

Commercial and Commercial Real Estate Loans

Commercial and commercial real estate loans are the largest classification within the earning assets of Old National, representing 42.7% of earning assets at September 30, 2007, an increase from 42.4% at September 30, 2006, and an increase from 40.9% at December 31, 2006. At September 30, 2007, commercial and commercial real estate loans were $3.001 billion, a decrease of $4.1 million since September 30, 2006, and a decrease of $15.4 million since December 31, 2006. Included in the loan balances were $95.9 million of commercial loans and $116.5 million of commercial real estate loans associated with the St. Joseph acquisition. Commercial loans have increased $94.5 million since September 30, 2006 while commercial real estate loans have decreased $98.6 million since September 30, 2006. During 2007, the Company sold $4.0 million of commercial and $10.2 million of commercial real estate loans. Weak loan demand in Old National s markets continues to affect loan growth. Old National also has continued to tighten its underwriting standards, which has slowed potential loan growth. Old National continues to be cautious towards the real estate market in an effort to lower future potential credit risk.

Consumer Loans

At September 30, 2007, consumer loans, including automobile loans, personal and home equity loans and lines of credit, and student loans, decreased $9.0 million or 0.7% compared to September 30, 2006, and increased $11.4 million or, annualized, 1.3% since December 31, 2006. Included in consumer loans at September 30, 2007 is $24.5 million of consumer loans associated with the St. Joseph acquisition.

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 private investors. Old National sells the majority of residential real estate loans originated as a strategy to better manage interest rate risk and liquidity.

At September 30, 2007, residential real estate loans were $539.3 million, an increase of $47.2 million, or 9.6%, from September 30, 2006. The acquisition of St. Joseph was the primary reason for the increase in residential real estate loans.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at September 30, 2007, totaled $191.9 million, an increase of $57.2 million compared to $134.7 million at September 30, 2006, and an increase of $57.7 million compared to $134.2 million at December 31, 2006. The increase is primarily the result of $60.3 million in goodwill and intangible assets related to the February 1, 2007 acquisition of St. Joseph Capital Corporation.

Funding

Total funding, comprised of deposits and wholesale borrowings, was $7.014 billion at September 30, 2007, a decrease of 2.0% from $7.158 billion at September 30, 2006, and an annualized decrease of 6.7% from $7.382 billion at December 31, 2006. Included in total funding were deposits of $5.875 billion at September 30, 2007, a decrease of $209.3 million, or 3.4%, compared to September 30, 2006, and an annualized decrease of 9.4% compared to December 31, 2006. Included in total deposits at September 30, 2007 is $240.5 million associated with the St. Joseph acquisition. NOW deposits increased 7.4 % or $98.6 million and savings deposits increased 58.8% or $242.0 million compared to September 30, 2006. Money market deposits decreased 20.5% or $178.4 million and time deposits decreased 14.0% or $367.1 million compared to September 30, 2006. Year over year, Old National has experienced a shift into lower cost deposit types.

Old National uses wholesale funding to augment deposit funding and to help maintain its desired interest rate risk position. At September 30, 2007, wholesale borrowings, including short-term borrowings and other borrowings, increased $65.4 million, or 6.1%, from September 30, 2006 and increased $78.7 million, or 9.9%, annualized, from December 31, 2006, respectively. Wholesale funding as a percentage of total funding was 16.2% at September 30, 2007, compared to 15.0% at September 30, 2006, and 14.4% at December 31, 2006. The primary cause for the increase in wholesale funding is an increase in short-term borrowings. Short-term borrowings have increased $225.5 million since September 30, 2006 while long-term borrowings have decreased $160.1 million since September 30, 2006. The primary causes for the reduction in long-term borrowings were the retirement of $89 million of Federal Home Loan Bank advances and $74 million of repurchase agreements in the first quarter of 2007. Old National also retired $23 million of Federal Home Loan Bank advances which were acquired from St. Joseph and a $15 million Federal Home Loan Bank advance acquired from St. Joseph matured in the first quarter of 2007.

Other liabilities have increased $51.9 million, or 43.4%, since September 30, 2006 primarily as a result of the deferred gains arising from the two sale leaseback transactions entered into by Old National in December of 2006 and September of 2007.

Capital

Shareholders equity totaled $647.4 million at September 30, 2007, compared to $642.8 million at September 30, 2006, and $642.4 million at December 31, 2006.

Old National paid cash dividends of $0.22 and $0.66 per share for the three and nine months ended September 30, 2007, which decreased equity by $43.3 million, compared to cash dividends of $0.21 and $0.63 per share for the three and nine months ended September 30, 2006, which decreased equity by $41.8 million. Old National purchased shares of its stock in the open market under an ongoing repurchase program, reducing shareholders equity by $4.1 million during the nine months ended September 30, 2007, and $29.5 million during the nine months ended September 30, 2006. The change in unrealized losses on investment securities decreased equity by $2.0 million during the nine months ended September 30, 2007, and increased equity by $1.3 million during the nine months ended September 30, 2006. Shares issued for stock options, restricted stock and stock compensation plans increased shareholders equity by $1.1 million during the nine months ended September 30, 2007, compared to $1.0 million during the nine months ended September 30, 2006. The adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, resulted in a $3.4 million reduction in equity during 2007. The adoption of EITF 06-5 also affected equity in 2007, resulting in a $0.1 million reduction.

Capital Adequacy

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. The decline in the Company s capital ratios can be attributed primarily to the cash purchase of St. Joseph.

	Regulatory Guidelines Minimum	September 30, 2007	September 30, 2006	December 31, 2006
Risk-based capital:				
Tier 1 capital to total avg assets (leverage ratio)	4.00%	**7.66%**	7.92%	8.01%
Tier 1 capital to risk-adjusted total assets	4.00	**10.52**	11.01	11.12
Total capital to risk-adjusted total assets	8.00	**13.91**	14.89	14.47
Shareholders equity to assets	N/A	**8.27**	8.12	7.88

RISK MANAGEMENT

Overview

Old National management, with the oversight of the Board of Directors, has in place company-wide structures, processes, and controls for managing and mitigating risk. The following discussion addresses the three major risks facing Old National: credit, market, and liquidity.

Credit Risk

Credit risk represents the risk of loss arising from an obligor s inability or failure to meet contractual payment or performance terms. Old National s primary credit risk results from the Company s lending activities. Community-based lending personnel, along with region-based independent underwriting and analytic support staff, extend credit under guidelines established and administered by Old National s Risk and 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, credit exposures, peer comparisons, 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, 2007, the Company had no concentration of loans in any single industry exceeding 10% of its portfolio and had no exposure to foreign borrowers or lesser-developed countries. Four measured industry categories, Lessors of Residential Buildings and Dwellings, Lessors of Nonresidential Buildings, Crop Farming and Durable Goods did exceed internal guidelines which set out recommended maximum limits of loan commitments as a percent of capital. Management will continue to monitor these industry categories. 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. Management expects that trends in under-performing, criticized and classified loans will be influenced by the degree to which the economy strengthens.

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Summary of under-performing, criticized and classified loans:

(dollars in thousands)	September 30, 2007	September 30, 2006	December 31, 2006
Nonaccrual loans	**$ 49,312**	$ 44,868	$ 41,518
Renegotiated loans		74	52
Past due loans (90 days or more and still accruing)	**2,173**	3,081	2,141
Foreclosed properties	**7,931**	4,042	3,313
Total under-performing assets	**$ 59,416**	$ 52,065	$ 47,024
Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans)	**$ 130,247**	$ 127,795	$ 153,215
Criticized loans	**79,102**	119,186	119,757
Total criticized and classified loans	**$ 209,349**	$ 246,981	$ 272,972
Asset Quality Ratios: (1)			
Non-performing loans/total loans (1) (2)	**1.04%**	0.95%	0.88%
Under-performing assets/total loans and foreclosed properties (1)	**1.25**	1.10	1.00
Under-performing assets/total assets	**0.76**	0.66	0.58
Allowance for loan losses/under-performing assets	**107.95**	137.58	144.16

(1) Loans include residential loans held for sale.

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

Loan charge-offs, net of recoveries, totaled $3.3 million for the three months ended September 30, 2007, a decrease of $1.4 million from the three months ended September 30, 2006. Net charge-offs for the nine months ended September 30, 2007, totaled $11.8 million compared to $14.2 million for the nine months ended September 30, 2006. Included in the nine months ended September 30, 2007 is $2.5 million of impairment associated with commercial and commercial real estate loans which were transferred to held for sale and sold during the second and third quarters of 2007. Net charge-offs to average loans were 0.28% and 0.32% for the three and nine months ended September 30, 2007, as compared to 0.39% for both the three and nine months ended September 30, 2006.

Under-performing assets totaled $59.4 million at September 30, 2007, an increase of $7.3 million compared to $52.1 million at September 30, 2006, and an increase of $12.4 million compared to $47.0 million at December 31, 2006. As a percent of total loans and foreclosed properties, under-performing assets at September 30, 2007, were 1.25%, an increase from the September 30, 2006 ratio of 1.10% and an increase from the December 31, 2006 ratio of 1.00%. Nonaccrual loans were $49.3 million at September 30, 2007, compared to $44.9 million at September 30, 2006, and $41.5 million at December 31, 2006. The increase in nonaccrual loans from December 31, 2006 to September 30, 2007 relates to $13.1 million of nonaccrual loans acquired from St. Joseph. Management will continue its efforts to reduce the level of under-performing loans and will consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses.

Total classified and criticized loans were $209.3 million at September 30, 2007, a decrease of $37.6 million from September 30, 2006, and a decrease of $63.6 million from December 31, 2006. Classified loans related to the St. Joseph acquisition amounted to $15.1 million.

Allowance for Loan Losses and Reserve for Unfunded Commitments

To provide for the risk of loss inherent in extending credit, Old National maintains an allowance for loan losses. The determination of the allowance is based upon the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events and regulatory guidance. At September 30, 2007, the allowance for loan losses was $64.1 million, a decrease of $7.5 million compared to $71.6 million at September 30, 2006, and a decrease of $3.7 million compared to $67.8 million at December 31, 2006. As a percentage of total loans, including loans held for sale, the allowance decreased to 1.35% at September 30, 2007, from 1.51% at September 30, 2006, and decreased from 1.44% at December 31, 2006. There was no provision for loan losses recorded for either the three months ended September 30, 2007, or the three months ended September 30, 2006. The provision for the nine months ended September 30, 2007, amounted to $2.4 million compared to $7.0 million for the nine months ended September 30, 2006. Improving asset quality combined with low charge-off experience necessitated a reduction in the loan loss reserve according to the Company s reserve formula.

In accordance with generally accepted accounting principles, the $5.4 million reserve for unfunded loan commitments is classified as a liability account on the balance sheet. The reserve for unfunded loan commitments increased $0.6 million during the first nine months of 2007 from $4.8 million at December 31, 2006, primarily as a result of the St Joseph acquisition.

Market Risk

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, currency exchange rates, and other relevant market rates or prices. Interest rate risk is Old National s primary market risk and results from timing differences in the re-pricing of assets and liabilities, changes in the slope of the yield curve, and the potential exercise of explicit or embedded options.

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 understand its overall sensitivity to market interest rate changes.

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Old National s Board of Directors, through its Funds Management Committee, monitors the Company s interest rate risk. Policy guidelines, in addition to September 30, 2007 and 2006 results, are as follows:

Net Interest Income 12 Month Policies (+/-)

	Interest Rate Change in Basis Points (bp)					
	Down 300	**Down 200**	**Down 100**	**Up 100**	**Up 200**	**Up 300**
Green Zone	12.00%	6.50%	3.00%	3.00%	6.50%	12.00%
Yellow Zone	12.00% - 15.00%	6.50% - 8.50%	3.00% - 4.00%	3.00% - 4.00%	6.50% - 8.50%	12.00% - 15.00%
Red Zone	15.00%	8.50%	4.00%	4.00%	8.50%	15.00%
9/30/2007	**2.76%**	**2.83%**	**2.05%**	**-1.29%**	**-3.08%**	**-5.18%**
9/30/2006	-3.09%	-0.25%	0.59%	-1.50%	-3.33%	-5.48%

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

	Interest Rate Change in Basis Points (bp)					
	Down 300	**Down 200**	**Down 100**	**Up 100**	**Up 200**	**Up 300**
Green Zone	10.00%	5.00%	2.25%	2.25%	5.00%	10.00%
Yellow Zone	10.00% - 12.50%	5.00% - 7.00%	2.25% - 3.25%	2.25% - 3.25%	5.00% - 7.00%	10.00% - 12.50%
Red Zone	12.50%	7.00%	3.25%	3.25%	7.00%	12.50%
9/30/2007	**-0.39%**	**0.85%**	**1.26%**	**-0.99%**	**-2.65%**	**-4.79%**
9/30/2006	-5.69%	-1.72%	0.08%	-1.21%	-3.01%	-5.14%

Economic Value of Equity Policies (+/-)

	Interest Rate Change in Basis Points (bp)					
	Down 300	**Down 200**	**Down 100**	**Up 100**	**Up 200**	**Up 300**
Green Zone	22.00%	12.00%	5.00%	5.00%	12.00%	22.00%
Yellow Zone	22.00% - 30.00%	12.00% - 17.00%	5.00% - 7.50%	5.00% - 7.50%	12.00% - 17.00%	22.00% - 30.00%
Red Zone	30.00%	17.00%	7.50%	7.50%	17.00%	30.00%
9/30/2007	**-15.19%**	**-7.32%**	**-1.81%**	**-1.32%**	**-4.11%**	**-7.80%**
9/30/2006	-24.37%	-11.78%	-3.54%	-0.29%	-2.47%	-5.20%

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, 2007, modeling indicated Old National was within the green zone policy limits for all Net Interest Income at Risk and Economic Value of Equity Scenarios. Old National s green zone is considered the normal and acceptable interest rate risk level.

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 $3.8 million at September 30, 2007, compared to an estimated fair value loss of $20.4 million at December 31, 2006. The improvement is primarily related to the reduction in notional amount of fair value hedges, specifically receive fixed interest rate swaps. See Note 15 to the consolidated financial statements for additional information.

Liquidity Risk

Liquidity risk arises from the possibility the Company may not be able to satisfy current or future financial commitments, or may become unduly reliant on alternative funding sources. 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.

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Loan repayments and maturing investment securities are a relatively predictable source of funds. However, deposit flows, calls of investment securities and prepayments of loans and mortgage-related securities are strongly influenced by interest rates, the weakening housing market, general and local economic conditions, and competition in the marketplace. We continue to monitor the securities markets to identify trends that might reduce the predictability of the timing of these sources of funds.

Old National s ability to acquire funding at competitive prices is influenced by rating agencies views of the Company s credit quality, liquidity, capital and earnings. Standard and Poor s, Moody s Investor Services and Dominion Bond Rating Services have each issued a stable outlook in conjunction with their ratings as of September 30, 2007. Fitch Rating Services reaffirmed a negative outlook in conjunction with their ratings as of July 18, 2007. The senior debt ratings of Old National Bancorp and Old National Bank at September 30, 2007, 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	A2	A2	N/A	BBB	F2	BBB (high)	R-2 (high)
Old National Bank	BBB+	A2	A1	P-1	BBB+	F2	A (low)	R-1 (low)

N/A = not applicable

As of September 30, 2007, Old National Bank had the capacity to borrow $713.1 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.

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. At September 30, 2007, the parent company s other borrowings outstanding was $260.5 million, compared with $255.5 million at December 31, 2006. The $5.0 million increase in other borrowings from December 31, 2006 to September 30, 2007 was attributable to junior subordinated debentures from the St. Joseph Capital Corporation purchase during the first quarter of 2007 and an increase in value of SFAS 133 fair value hedges. This was partially offset by a $5.0 million maturity of a medium-term note. Old National Bancorp, the parent company, has $105.0 million of 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, 2007, regulatory approval was obtained for Old National s affiliate bank to pay dividends.

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CONTRACTUAL OBLIGATIONS

The following table presents Old National s significant fixed and determinable contractual obligations at September 30, 2007:

CONTRACTUAL OBLIGATIONS

	Payments Due In				
(dollars in thousands)	**One Year or Less (A)**	**One to Three Years**	**Three to Five Years**	**Over Five Years**	**Total**
Deposits without stated maturity	$ 3,611,825	$	$	$	$ 3,611,825
Consumer and brokered certificates of deposit	516,804	1,264,269	182,217	299,427	2,262,717
Short-term borrowings	527,033				527,033
Other borrowings	5,009	153,077	225,089	228,954	612,129
Operating leases	5,113	40,285	38,586	282,549	366,533

(A) For the remaining three months of fiscal 2007.

Operating Leases

During the quarter, Old National entered into a purchase and sale agreement, dated September 19, 2007, to sell a portfolio of twenty-five of its banking properties and one insurance property. Pursuant to the purchase and sale agreement, Old National entered into lease agreements with the buyers to lease back the properties. Old National is obligated to pay aggregate base rents for the properties in the aggregate annual amount of $9.0 million to the buyers under the lease agreements through September 30, 2007; no rent is payable for the final four years of the initial 24-year term. For financial reporting purposes, the rents will be expensed ratably over the 24-year term at an annual rate of $7.5 million. See footnote 10 to the consolidated financial statements for additional information on the sale leaseback transactions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Old National s accounting policies are described in Note 1 to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. Certain accounting policies require management to use significant judgment and estimates, which can have a material impact on the carrying value of certain assets and liabilities. We consider these policies to be critical accounting policies. The judgment and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from these judgments and estimates which could have a material affect on our financial condition and results of operations.

The following accounting policies materially affect our reported earnings and financial condition and require significant judgments and estimates.

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

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

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

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

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

Management s analysis of probable losses in the portfolio at September 30, 2007, resulted in a range for allowance for loan losses of $8.6 million with the potential effect to net income ranging from a decrease of $1.5 million to an increase of $4.1 million. These sensitivities are hypothetical and are not intended to represent actual results.

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

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

Derivative Financial Instruments. As part of the Company s overall interest rate risk management, Old National uses derivative instruments to reduce exposure to changes in interest rates and market prices for financial instruments. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items. To the extent hedging relationships are found to be effective, as determined by SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, changes in fair value of the derivatives are significantly offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. However, if in the future the derivative financial instruments used by the Company no longer qualify for hedge accounting treatment, all changes in fair value of the derivative would flow through the consolidated statements of income in other noninterest income, resulting in greater volatility in our earnings. Management believes hedge effectiveness is evaluated properly in preparation of the financial statements. All of the derivative financial instruments used by the Company have active markets and indications of fair value can be readily obtained.

Income Taxes. The Company is subject to the income tax laws of the U.S, its states and the municipalities in which the Company operates. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. In establishing a provision for income tax expense, the Company must make judgments and interpretations about the application of these inherently complex tax laws. The Company must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit. The Company reviews income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate.

On January 1, 2007, the Company adopted FIN 48 to account for uncertain tax positions. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 14 to the Consolidated Financial Statements for a further description of the Company s provision and related income tax assets and liabilities.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the Company s disclosure relating to it in this Management s Discussion and Analysis .

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 any 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) the ability of Old National to achieve loan and deposit growth; (5) volatility and direction of market interest rates; (6) governmental legislation and regulation, including changes in accounting regulation or standards; (7) the ability of Old National to execute its business plan; (8) a weakening of the economy which could materially impact credit quality trends and the ability to generate loans; (9) changes in the securities markets; and (10) 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.

ITEM 3. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Management s Discussion and Analysis of Financial Condition and Results of Operations-Market Risk and Liquidity Risk.

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ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures. Old National s principal executive officer and principal financial officer have concluded that Old National s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this Form 10-Q, are effective at the reasonable assurance level as discussed below to ensure that information required to be disclosed by Old National in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to Old National s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Controls. Management, including the principal executive officer and principal financial officer, does not expect that Old National s disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be only reasonable assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting. There were no changes in Old National s internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, Old National s internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the Risk Factors section of the Company s annual report on Form 10-K for the year ended December 31, 2006.

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
07/01/07 - 07/31/07				4,325,192
08/01/07 - 08/31/07				4,325,192
09/01/07 - 09/30/07				4,325,192
Quarter-to-date 09/30/07				4,325,192

ITEM 5. OTHER INFORMATION

(a) None

(b) There have been no material changes in the procedure by which security holders recommend nominees to the Company s board of directors.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Articles of Incorporation of Old National, amended May 22, 2007 (incorporated by reference to Exhibit 3.1 of Old National s Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 22, 2007).
3.2	By-Laws of Old National, amended April 26, 2007 (incorporated by reference to Exhibit 3.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 30, 2007).
4.1	Senior Indenture between Old National and J.P. Morgan Trust Company, National Association (as successor to Bank One, NA), as trustee (incorporated by reference to Exhibit 4.3 to Old National s Registration Statement on Form S-3, Registration No. 333-118374, filed with the Securities and Exchange Commission on December 2, 2004).
4.2	Form of Indenture between Old National and J.P. Morgan Trust Company, National Association (as successor to Bank One, NA), as trustee (incorporated by reference to Exhibit 4.1 to Old National s Registration Statement on Form S-3, Registration No. 333-87573, filed with the Securities and Exchange Commission on September 22, 1999).
4.3	Rights Agreement, dated March 1, 1990, as amended on February 29, 2000, between Old National Bancorp and Old National Bank, as trustee (incorporated by reference to Old National s Form 8-A,

dated March 1, 2000).

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Exhibit No.	Description
4.4	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).
4.5	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).
10.1	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).*
10.2	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).*
10.3	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).*
10.4	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).*
10.5	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).*
10.6	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).*
10.7	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).*
10.8	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).*
10.9	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).*

10.10	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).*
10.11	Form of Severance Agreement for Michael R. Hinton, Annette W. Hudgions, Daryl D. Moore and Christopher A. Wolking, 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).*

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Exhibit No.	Description
10.12	Release and Separation Agreement between Old National and Michael R. Hinton (incorporated by reference to Exhibit 10.12 of Old National s Report on Form 10-Q for the quarter ended June 30, 2006).*
10.13	Form of Change of Control Agreement for Robert G. Jones, Annette W. Hudgions, Daryl D. Moore and Christopher A. Wolking, 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).*
10.14	Old National Bancorp 1999 Equity Incentive Plan (incorporated by reference to Old National s Form S-8 filed on July 20, 2001).*
10.15	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).*
10.16	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).*
10.17	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). *
10.18	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).*
10.19	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).
10.20	Form of 2006 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).*
10.21	Form of 2006 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).*
10.22	Form of 2006 Non-qualified Stock Option Agreement (incorporated by reference to Exhibit 99.3 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).*
10.23	Form of 2007 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(w) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).*

10.24	Form of 2007 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(x) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).*
10.25	Form of 2007 Non-qualified Stock Option Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(y) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).*

Exhibit No.	**Description**
10.26	Purchase and Sale Agreement dated December 20, 2006, between Old National Bancorp, Old National Bank, Old National Realty Company, Inc., ONB One Main Landlord, LLC, ONB 123 Main Landlord, LLC, and ONB 4th Street Landlord, LLC (incorporated by reference to Exhibit 10(z) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.27	Lease Agreement, dated December 20, 2006 between ONB One Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(aa) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.28	Lease Agreement, dated December 20, 2006 between ONB 123 Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ab) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.29	Lease Agreement, dated December 20, 2006 between ONB 4th Street Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ac) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.30	Agreement and Plan of Merger dated as of October 21, 2006 by and among Old National Bancorp, St. Joseph Capital Corporation and SMS Subsidiary, Inc. (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 23, 2006).
10.31	Purchase and Sale Agreement dated September 19, 2007, by and among Old National Bank, ONB Insurance Group, Inc., ONB CTL Portfolio Landlord #1, LLC, ONB CTL Portfolio Landlord #2, LLC, ONB CTL Portfolio Landlord #3, LLC, ONB CTL Portfolio Landlord #4, LLC and ONB CTL Portfolio Landlord #5, LLC (incorporated by reference to Exhibit 99.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.32	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, and Old National Bank (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007). 8-K filed with the Securities and Exchange Commission on September 24, 2007).
10.33	Lease Supplement No. 1 dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, Old National Bank and ONB Insurance Group, Inc. (incorporated by reference to Exhibit 99.3 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.34	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #2, LLC, and Old National Bank (incorporated by reference to Exhibit 99.4 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.35	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #3, LLC, and Old National Bank (incorporated by reference to Exhibit 99.5 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).

10.36	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #4, LLC, and Old National Bank (incorporated by reference to Exhibit 99.6 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.37	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #5, LLC, and Old National Bank (incorporated by reference to Exhibit 99.7 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).

Exhibit No.	**Description**
10.38	Purchase and Sale Agreement dated October 19, 2007, by and among Old National Bank, American National Trust and Investment Management Company, ONB Traditional Portfolio Landlord, LLC, ONB Site 3 Landlord, LLC, ONB Site Landlord 4, LLC, ONB Site Landlord 6, LLC, ONB Site Landlord 14, LLC, ONB Site Landlord 15, LLC, ONB Site Landlord 17, LLC, ONB Site Landlord 19, LLC, ONB Site Landlord 20, LLC, ONB Site Landlord 25, LLC, ONB Site Landlord 26, LLC, ONB Site Landlord 27, LLC, ONB Site Landlord 29, LLC, ONB Site Landlord 33, LLC, ONB Site Landlord 35, LLC, ONB Site Landlord 36, LLC, ONB Site Landlord 37, LLC, ONB Site Landlord 41, LLC, ONB Site Landlord 43, LLC, ONB Site Landlord 44, LLC, ONB Site Landlord 45, LLC, ONB Site Landlord 47, LLC, ONB Site Landlord 48, LLC and ONB Site Landlord 57, LLC (incorporated by reference to Exhibit 99.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2007).
10.39	Form of Lease Agreement dated October 19, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2007).
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
Senior Executive Vice President and Chief Financial Officer
Duly Authorized Officer and Principal Financial Officer

Date: November 8, 2007

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EXHIBIT INDEX

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