

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

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**FORM 10-Q**

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

**For the quarterly period ended June 30, 2004**

☐ **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**

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**OLD NATIONAL BANCORP**

(Exact name of Registrant as specified in its charter)

**INDIANA**  
(State or other jurisdiction of  
incorporation or organization)

**35-1539838**  
(I.R.S. Employer  
Identification No.)

**420 Main Street**  
**Evansville, Indiana**  
(Address of principal executive offices)

**47708**  
(Zip Code)

-----  
**(812) 464-1434**  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock. The Registrant has one class of common stock (no par value) with 66,073,000 shares outstanding at July 31, 2004.

**OLD NATIONAL BANCORP**  
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**OLD NATIONAL BANCORP**  
**CONSOLIDATED BALANCE SHEET**

		June 30, (unaudited)	December 31,
(dollars and shares in thousands)	2004	2003	2003
<b>Assets</b>			
Cash and due from banks	\$ 198,263	\$ 228,472	\$ 222,385
Money market investments	280,811	14,283	14,504
Total cash and cash equivalents	479,074	242,755	236,889
Investment securities - available-for-sale, at fair value:			
U.S. Treasury	71,645	5,289	26,057
U.S. Government agencies and corporations	551,317	554,271	580,820
Mortgage-backed securities	1,169,560	1,725,616	1,298,881
States and political subdivisions	638,955	679,612	655,068
Other securities	135,928	122,652	145,514
Investment securities - available-for-sale	2,567,405	3,087,440	2,706,340
Investment securities - held-to-maturity, at amortized cost:			
Mortgage-backed securities (fair value \$186,210, \$234,853, and \$209,316, respectively)	192,934	232,322	210,905
Residential loans held for sale	26,846	56,270	16,338
Loans:			
Commercial	1,618,677	1,709,921	1,618,095
Commercial real estate	1,758,748	1,876,033	1,849,275
Residential real estate	534,688	895,259	939,422
Consumer credit, net of unearned income	1,195,082	1,090,089	1,163,325
Total loans	5,107,195	5,571,302	5,570,117
Allowance for loan losses	(103,646)	(98,027)	(104,571)
Net loans	5,003,549	5,473,275	5,465,546
Premises and equipment, net	201,689	151,403	181,398
Goodwill	129,265	115,106	129,251
Other intangible assets	40,313	30,952	41,912
Mortgage servicing rights	17,571	9,843	14,659
Accrued interest receivable and other assets	374,223	338,351	350,658
Total assets	\$9,032,869	\$9,737,717	\$9,353,896
<b>Liabilities</b>			
Deposits:			
Noninterest-bearing demand	\$ 784,499	\$ 835,100	\$ 823,146
Interest-bearing:			
NOW	1,727,947	1,560,974	1,612,145
Savings	477,238	513,442	441,427
Money market	579,490	565,216	608,177
Time	2,777,151	3,002,697	3,008,197
Total deposits	6,346,325	6,477,429	6,493,092
Short-term borrowings	426,679	607,101	414,588
Other borrowings	1,456,179	1,552,105	1,624,092
Guaranteed preferred beneficial interests in subordinated debentures	-	166,932	-
Accrued expenses and other liabilities	130,388	168,488	106,634
Total liabilities	8,359,571	8,972,055	8,638,406
<b>Shareholders' Equity</b>			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding	-	-	-
Common stock, \$1 stated value, 150,000 shares authorized, 66,273, 63,522 and 66,575 shares issued and outstanding, respectively	66,273	63,522	66,575
Capital surplus	574,681	521,064	581,224
Retained earnings	58,667	125,792	53,107
Accumulated other comprehensive income (loss), net of tax	(26,323)	55,284	14,584
Total shareholders' equity	673,298	765,662	715,490
Total liabilities and shareholders' equity	\$9,032,869	\$9,737,717	\$9,353,896

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

**OLD NATIONAL BANCORP**  
**CONSOLIDATED STATEMENT OF INCOME**

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars and shares in thousands, except per share data) (unaudited)	2004	2003	2004	2003
<b>Interest Income</b>				
Loans including fees:				
Taxable	\$ 72,691	\$ 81,515	\$147,073	\$166,470
Nontaxable	4,324	4,282	8,691	8,546
Investment securities, available-for-sale:				
Taxable	18,995	24,213	38,888	50,195
Nontaxable	7,341	7,826	14,703	15,855
Investment securities, held-to-maturity, taxable	1,987	2,339	4,084	2,616
Money market investments	90	58	110	129
Total interest income	105,428	120,233	213,549	243,811
<b>Interest Expense</b>				
Deposits	26,948	36,496	56,313	74,575
Short-term borrowings	1,063	2,008	2,053	4,582
Other borrowings	12,260	13,264	24,915	26,386
Total interest expense	40,271	51,768	83,281	105,543
Net interest income	65,157	68,465	130,268	138,268
Provision for loan losses	7,500	22,500	15,000	31,500
Net interest income after provision for loan losses	57,657	45,965	115,268	106,768
<b>Noninterest Income</b>				
Trust and asset management fees	8,042	7,723	15,542	15,083
Service charges on deposit accounts	12,386	11,581	23,151	22,359
ATM fees	2,190	2,025	4,155	3,892
Mortgage banking revenue	7,139	4,865	6,819	9,268
Insurance premiums and commissions	14,381	9,068	28,890	17,315
Investment product fees	3,775	2,683	6,960	5,361
Bank-owned life insurance	1,782	1,755	3,835	3,440
Net securities gains	21	20,750	2,006	23,480
Other income	1,356	2,463	5,342	5,635
Total noninterest income	51,072	62,913	96,700	105,833
<b>Noninterest Expense</b>				
Salaries and employee benefits	53,526	44,135	102,795	85,795
Occupancy	4,667	4,536	9,518	9,057
Equipment	3,476	3,828	7,038	7,526
Marketing	2,032	2,798	4,390	5,225
Outside processing	5,619	4,861	10,589	9,053
Communication and transportation	2,751	2,774	5,720	5,893
Professional fees	17,025	2,451	20,113	4,867
Loan expense	1,804	1,616	3,271	2,995
Supplies	974	1,348	2,033	2,610
Other real estate owned expense	367	318	2,023	865
Other expense	6,446	5,295	11,650	10,239
Total noninterest expense	98,687	73,960	179,140	144,125
Income before income taxes	10,042	34,918	32,828	68,476
Income tax expense (benefit)	(1,241)	7,851	2,036	15,149
Net income	\$ 11,283	\$ 27,067	\$ 30,792	\$ 53,327
<b>Net Income Per Common Share</b>				
Basic	\$0.17	\$0.41	\$0.46	\$0.80
Diluted	0.17	0.41	0.46	0.80
<b>Weighted Average Number Of Common Shares Outstanding</b>				
Basic	66,334	66,646	66,347	66,767
Diluted	66,819	66,699	66,615	66,821
<b>Dividends Per Common Share</b>	\$0.19	\$0.18	\$0.38	\$0.36

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

**OLD NATIONAL BANCORP**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

(dollars and shares in thousands) (unaudited)	<b>Common Stock</b>		<b>Capital Surplus</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Shareholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>				
<b>Balance, December 31, 2002</b>	63,856	\$63,856	\$528,379	\$ 96,652	\$ 51,823	\$740,710
Net income	-	-	-	53,327	-	53,327
Unrealized net securities gains, net of \$7,788 tax	-	-	-	-	18,034	18,034
Reclassification adjustment for gains included in net income, net of \$(7,821) tax	-	-	-	-	(15,659)	(15,659)
Net unrealized derivative gains on cash flow hedges, net of \$647 tax	-	-	-	-	998	998
Reclassification adjustment on cash flow hedges, net of \$56 tax	-	-	-	-	88	88
Stock issued for acquisitions	335	335	7,158	-	-	7,493
Cash dividends	-	-	-	(24,187)	-	(24,187)
Stock repurchased	(970)	(970)	(20,590)	-	-	(21,560)
Stock issued under stock option and stock purchase plans	301	301	6,117	-	-	6,418
<b>Balance, June 30, 2003</b>	<b>63,522</b>	<b>\$63,522</b>	<b>\$521,064</b>	<b>\$125,792</b>	<b>\$ 55,284</b>	<b>\$765,662</b>
 <b>Balance, December 31, 2003</b>	 <b>66,575</b>	 <b>\$66,575</b>	 <b>\$581,224</b>	 <b>\$ 53,107</b>	 <b>\$ 14,584</b>	 <b>\$715,490</b>
Net income	-	-	-	30,792	-	30,792
Unrealized net securities losses, net of \$(25,770) tax	-	-	-	-	(40,354)	(40,354)
Reclassification adjustment for gains included in net income, net of \$(843) tax	-	-	-	-	(1,163)	(1,163)
Net unrealized derivative gains on cash flow hedges, net of \$333 tax	-	-	-	-	516	516
Reclassification adjustment on cash flow hedges, net of \$62 tax	-	-	-	-	94	94
Cash dividends	-	-	-	(25,232)	-	(25,232)
Stock repurchased	(729)	(729)	(15,402)	-	-	(16,131)
Stock issued under stock option and stock purchase plans	427	427	8,859	-	-	9,286
<b>Balance, June 30, 2004</b>	<b>66,273</b>	<b>\$66,273</b>	<b>\$574,681</b>	<b>\$ 58,667</b>	<b>\$(26,323)</b>	<b>\$673,298</b>

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

**OLD NATIONAL BANCORP**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
(dollars in thousands) (unaudited)	<b>2004</b>	<b>2003</b>
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 30,792	\$ 53,327
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	6,420	6,444
Amortization of other intangible assets	1,599	1,081
Net premium amortization on investment securities	4,346	6,741
Provision for loan losses	15,000	31,500
Net securities gains	(2,006)	(23,480)
Gains on sales of loans and other assets	(4,645)	(6,557)
Residential real estate loans originated for sale	(193,881)	(530,926)
Proceeds from sale of residential real estate loans	187,226	573,911
(Increase) decrease in other assets	(37,299)	10,835
Increase in accrued expenses and other liabilities	49,972	45,721
Total adjustments	26,732	115,270
Net cash flows provided by operating activities	57,524	168,597
<b>Cash Flows From Investing Activities</b>		
Cash and cash equivalents of subsidiaries acquired	-	1,497
Purchases of investment securities available-for-sale	(548,877)	(1,644,454)
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	401,356	720,980
Proceeds from sales of investment securities available-for-sale	216,493	933,167
Purchases of investment securities held-to-maturity	-	(237,190)
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	17,464	4,618
Proceeds from sale of loans	404,424	8,854
Net principal collected from customers	42,573	75,666
Proceeds from sale of premises and equipment	2,669	433
Purchases of premises and equipment	(28,993)	(23,262)
Net cash flows provided by (used in) investing activities	507,109	(159,691)
<b>Cash Flows From Financing Activities</b>		
Net increase (decrease) in deposits and short-term borrowings:		
Noninterest-bearing demand deposits	(38,647)	56,671
Savings, NOW and money market deposits	122,926	209,766
Time deposits	(231,046)	(228,288)
Short-term borrowings	12,091	(311,248)
Payments for maturities on other borrowings	(210,238)	(71,549)
Proceeds from issuance of other borrowings	54,543	381,600
Cash dividends paid	(25,232)	(24,187)
Common stock repurchased	(16,131)	(21,560)
Common stock issued under stock option and stock purchase plans	9,286	6,418
Net cash flows used in financing activities	(322,448)	(2,377)
Net increase in cash and cash equivalents	242,185	6,529
Cash and cash equivalents at beginning of period	236,889	236,226
<b>Cash and cash equivalents at end of period</b>	<b>\$ 479,074</b>	<b>\$ 242,755</b>
Total interest paid	\$86,488	\$108,425
Total taxes paid	\$ 6,990	\$ 13,599

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

**OLD NATIONAL BANCORP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates ("Old National") and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2004 presentation. Such reclassifications had no effect on net income. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of June 30, 2004 and 2003, and December 31, 2003, and the results of its operations for the three and six months ended June 30, 2004 and 2003. Interim results do not necessarily represent annual results.

**NOTE 2 - IMPACT OF ACCOUNTING CHANGES**

In December 2003, the Financial Accounting Standards Board ("FASB") revised Statement of Financial Accounting Standards ("SFAS") No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This statement requires annual disclosures in addition to those in the original SFAS No. 132, which provides additional information regarding assets, obligations, cash flows and net periodic benefit costs of defined benefit pension plans. In addition, interim disclosure of the components of net periodic benefit costs is required. The revised SFAS No. 132 is effective for financial statements with fiscal years ending after December 15, 2003. Old National adopted this statement as of December 31, 2003, and has included all such required disclosures in Note 10.

In December 2003, the FASB revised FASB Interpretation No. 46 ("FIN 46R"), "Consolidation of Variable Interest Entities," which was initially released in January 2003. FIN 46R provides guidance with respect to variable interest entities and when the assets, liabilities, noncontrolling interest and results of operations of a variable interest entity need to be included in a company's consolidated financial statements. FIN 46R was effective for companies with "special-purpose entities" as of December 31, 2003. Old National does not have special-purpose entities. However, under this new guidance, Old National was required to deconsolidate ONB Capital Trust I and ONB Capital Trust II as these trusts no longer meet the definition of a related subsidiary under the terms of FIN 46R. This change also resulted in the remaining debt being disclosed in "other borrowings" beginning with the period ending December 31, 2003, compared to the separate disclosure on the balance sheet prior to that date. The effect of this deconsolidation was an increase of \$4.6 million to both assets and liabilities with no impact to the results of operations. The effective date for consolidation of all other entities was after March 15, 2004. Old National consolidated various low income housing partnerships on March 31, 2004, for which the impact on the results of operations and financial position was immaterial.

Old National applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for the stock option plan. Accordingly, no compensation costs have been recognized. In accordance with SFAS No. 148, "Accounting for Stock-based Compensation – Transition and Disclosure" and SFAS No. 123, "Accounting for Stock-Based Compensation," Old National has presented in the following table net income and net income per share adjusted to proforma amounts had compensation cost for Old National's stock option plan been recorded based on the fair value at the grant dates for awards under the plan. All per share data has been adjusted for stock dividends, including a 5% stock dividend distributed to shareholders on January 27, 2004.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share data)	2004	2003	2004	2003
Net income as reported	\$11,283	\$27,067	\$30,792	\$53,327
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(855)	(1,212)	(2,518)	(2,311)
Proforma net income	\$10,428	\$25,855	\$28,274	\$51,016
Basic net income per share:				
As reported	\$0.17	\$0.41	\$0.46	\$0.80
Proforma	0.16	0.39	0.43	0.76
Diluted net income per share:				
As reported	\$0.17	\$0.41	\$0.46	\$0.80
Proforma	0.16	0.39	0.43	0.76

### NOTE 3 - NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during each period, adjusted to reflect all stock dividends. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. The following table reconciles basic and diluted net income per share for the three and six months ended June 30:

	Three Months Ended June 30, 2004			Three Months Ended June 30, 2003		
(dollars and shares in thousands, except per share data)	Income	Shares	Amount	Income	Shares	Amount
<b>Basic Net Income Per Share</b>						
Income from operations	\$11,283	66,334	<u>\$0.17</u>	\$27,067	66,646	<u>\$0.41</u>
<b>Effect Of Dilutive Securities</b>						
Stock options	-	485		-	53	
<b>Diluted Net Income Per Share</b>						
Income from operations and assumed conversions	\$11,283	66,819	<u>\$0.17</u>	\$27,067	66,699	<u>\$0.41</u>

	Six Months Ended June 30, 2004			Six Months Ended June 30, 2003		
(dollars and shares in thousands, except per share data)	Income	Shares	Amount	Income	Shares	Amount
<b>Basic Net Income Per Share</b>						
Income from operations	\$30,792	66,347	<u>\$0.46</u>	\$53,327	66,767	<u>\$0.80</u>
<b>Effect Of Dilutive Securities</b>						
Stock options	-	268		-	54	
<b>Diluted Net Income Per Share</b>						
Income from operations and assumed conversions	\$30,792	66,615	<u>\$0.46</u>	\$53,327	66,821	<u>\$0.80</u>



#### NOTE 4 - INVESTMENT SECURITIES

The market value and amortized cost of investment securities as of June 30 are set forth below:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>2004</b>				
Available-for-sale	\$2,611,786	\$28,787	\$(73,168)	\$2,567,405
Held-to-maturity	192,934	-	(6,724)	186,210
<b>2003</b>				
Available-for-sale	\$2,998,906	\$94,826	\$ (6,292)	\$3,087,440
Held-to-maturity	232,322	2,531	-	234,853

#### NOTE 5 - LOANS HELD FOR SALE

Residential loans held for sale are recorded at lower of cost or market value determined as of the balance sheet date. Old National's residential loans held for sale have been hedged using fair value hedge accounting in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The loans' carrying basis reflects the effects of the SFAS No. 133 adjustments. At June 30, 2004 and 2003, Old National had residential loans held for sale of \$26.8 million and \$56.3 million, respectively. As of June 30, 2004 and 2003, ineffectiveness was immaterial.

During the second quarter of 2004, residential real estate loans held for investment of \$405.6 million were reclassified to residential loans held for sale and sold for \$404.4 million resulting in a write-down on loans transferred to held for sale of \$1.2 million, which was recorded as a reduction to the allowance for loan losses. Also in connection with this transaction, mortgage servicing rights of \$2.7 million were capitalized, and a net gain of \$2.7 million was recognized. During the second quarter of 2003, nonaccrual residential real estate loans held for investment of \$11.1 million were reclassified to residential loans held for sale and sold for \$8.9 million resulting in a write-down on loans transferred to held for sale of \$2.2 million, which was recorded as a reduction to the allowance for loan losses.

#### NOTE 6 - ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses was as follows:

(dollars in thousands)	2004	2003
Balance, January 1	\$104,571	\$87,742
Additions:		
Provision charged to expense	15,000	31,500
Deductions:		
Write-downs on loans transferred to held for sale	1,177	2,250
Loans charged-off	18,332	22,258
Recoveries	(3,584)	(3,293)
Net charge-offs and other charges	15,925	21,215
Balance, June 30	\$103,646	\$98,027

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

(dollars in thousands)	2004	2003
Impaired loans without a valuation allowance	<b>\$20,911</b>	\$ 52,396
Impaired loans with a valuation allowance	<b>63,721</b>	216,150
Total impaired loans	<b>\$84,632</b>	\$268,546
Valuation allowance related to impaired loans	<b>\$28,035</b>	\$ 67,924

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

For the six months ended June 30, 2004, the average balance of impaired loans was \$90.1 million for which \$0.4 million of interest was recorded. For the six months ended June 30, 2003, the average balance of impaired loans was \$281.0 million for which \$8.4 million of interest was recorded. No additional funds are committed to be advanced in connection with impaired loans. Loans deemed impaired are evaluated primarily using the fair value of the underlying collateral.

During the third quarter of 2003, Old National revised its interpretation of impaired loans to strictly follow SFAS No. 114. Prior to this change, Old National's interpretation of impaired loans more conservatively included all problem credits with a potential collateral deficiency in the event of default and nonaccrual loans in larger groups of smaller-balance homogeneous loans. Had Old National applied the current interpretation in the prior year, impaired loans would have totaled \$136.2 million with a valuation allowance of \$33.3 million rather than \$268.5 million with a valuation allowance of \$67.9 million as reported at June 30, 2003.

#### **NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS**

At June 30, 2004 and 2003, Old National had goodwill in the amount of \$129.3 million and \$115.1 million, respectively. During 2003, Old National performed its annual goodwill impairment testing resulting in no impairment. At June 30, 2004, the community banking segment and the non-bank services segment had goodwill of \$71.0 million and \$58.3 million, respectively. There was no material change in the carrying amount of goodwill by segment for the six-month period ended June 30, 2004.

Old National continues to amortize definite-lived intangible assets over the estimated remaining life of each respective asset. At June 30, 2004, Old National had \$40.3 million in unamortized intangible assets compared with \$31.0 million in unamortized identifiable intangible assets at June 30, 2003. Indefinite-lived assets of \$2.8 million were included in each year.

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

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>2004</b>			
Amortized intangible assets:			
Core deposit	\$ 5,574	\$(3,353)	\$ 2,221
Customer business relationships	36,676	(3,104)	33,572
Non-compete agreements	1,100	(110)	990
Technology	1,300	(570)	730
Total amortized intangible assets	44,650	(7,137)	37,513
Unamortized intangible assets:			
Trade name	2,800	-	2,800
Total intangible assets	\$47,450	\$(7,137)	\$40,313
<b>2003</b>			
Amortized intangible assets:			
Core deposit	\$ 5,574	\$(2,727)	\$ 2,847
Customer business relationships	24,184	(939)	23,245
Non-compete agreements	1,100	(55)	1,045
Technology	1,300	(285)	1,015
Total amortized intangible assets	32,158	\$(4,006)	28,152
Unamortized intangible assets:			
Trade name	2,800	-	2,800
Total intangible assets	\$34,958	\$(4,006)	\$30,952

Total amortization expense associated with intangible assets for the three months ended June 30 was \$0.8 million in 2004 and \$0.6 million in 2003. Year-to-date amortization expense as of June 30, 2004 and 2003, was \$1.6 million and \$1.1 million, respectively. The following is the estimated amortization expense for the future years:

(dollars in thousands)	Estimated Amortization Expense
<b>For the years ended:</b>	
2004 remaining	\$ 1,576
2005	3,065
2006	2,849
2007	2,386
2008	2,213
2009	2,122
Thereafter	23,302
Total	\$37,513

## NOTE 8 - MORTGAGE SERVICING RIGHTS

Mortgage servicing rights derived from loans sold with servicing retained were \$17.6 million and \$16.3 million at June 30, 2004 and 2003, respectively. Loans serviced for others are not included in the consolidated balance sheet of Old National. The unpaid principal balance of mortgage loans serviced for others at June 30 was \$2.134 billion in 2004 and \$1.638 billion in 2003. At June 30, 2004 and 2003, the fair value of capitalized mortgage servicing rights was \$21.5 million and \$9.8 million, respectively. During the six months ended June 30, 2004, a full recovery of the valuation allowance of \$1.1 million was recognized due to decreases in average prepayment rates. Old National's key economic assumptions used in determining the fair value of mortgage servicing rights were a weighted average prepayment rate of 223 PSA and discount rates ranging from 9.0% to 10.5% at June 30, 2004, and a weighted average prepayment rate of 639 PSA and a discount rate of 8.5% at June 30, 2003.

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

(dollars in thousands)	2004	2003
Balance before valuation allowance, January 1	\$15,790	\$13,423
Rights capitalized	4,942	4,786
Amortization	(3,161)	(1,932)
Balance before valuation allowance, June 30	17,571	16,277
Valuation allowance:		
Balance, January 1	(1,131)	(2,056)
Additions to valuation allowance	(1,940)	(4,378)
Reductions to valuation allowance	3,071	-
Balance, June 30	-	(6,434)
Mortgage servicing rights, net	\$17,571	\$ 9,843

## NOTE 9 - FINANCING ACTIVITIES

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

(dollars in thousands)	2004	2003
<b>Old National Bancorp:</b>		
Medium-term notes, Series 1997 (fixed rates 3.50% to 7.03%) maturities July 2004 to June 2008	\$ 113,200	\$ 143,200
Junior subordinated debentures (fixed rates 8.00% to 9.50%) maturities March 2030 to April 2032	150,000	-
SFAS 133 hedge and other basis adjustments	1,940	380
<b>Old National Bank:</b>		
Securities sold under agreements to repurchase (variable rates 1.42% to 4.73%) maturities March 2006 to December 2008	298,000	233,000
Federal Home Loan Bank advances (fixed rates 4.28% to 8.34% and variable rates 1.97% to 2.26%) maturities August 2004 to October 2022	580,116	813,607
Senior unsecured bank notes (fixed rate 3.95% and variable rates 1.43% to 1.88%) maturities January 2005 to February 2008	165,000	190,000
Subordinated bank notes (fixed rate 6.75%) maturing October 2011	150,000	150,000
Capital lease obligation	4,536	-
SFAS 133 hedge and other basis adjustments	(6,613)	21,918
Total other borrowings	\$1,456,179	\$1,552,105

Contractual maturities of other borrowings at June 30, 2004, were as follows:

(dollars in thousands)	
Due in 2004	\$ 48,213
Due in 2005	195,082
Due in 2006	252,402
Due in 2007	160,034
Due in 2008	343,037
Thereafter	462,084
SFAS 133 hedge and other basis adjustments	(4,673)
Total	\$1,456,179

**FEDERAL HOME LOAN BANK**

Federal Home Loan Bank advances had weighted-average rates of 5.32% and 5.41% at June 30, 2004 and 2003, respectively. These borrowings are secured by investment securities and residential real estate loans up to 150% of outstanding debt.

**SUBORDINATED BANK NOTES**

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

**GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES**

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 guarantees the payment of distributions on the preferred securities issued by ONB Capital Trust II.

ONB Capital Trust I issued \$50 million in preferred securities in March 2000. The preferred securities have a liquidation amount of \$25 per share with a cumulative annual distribution rate of 9.5% or \$2.375 per share payable quarterly and maturing on March 15, 2030. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by ONB Capital Trust I. Old National guarantees the payment of distributions on the preferred securities issued by ONB Capital Trust I.

Old National may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole (or in part from time to time) on or after March 15, 2005 (for debentures owned by ONB Capital Trust I) and on or after April 12, 2007 (for debentures owned by ONB 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. These securities qualify as Tier 1 capital for regulatory purposes and the SEC registration related to these securities has remaining funding capacity of \$50 million.

In accordance with FIN 46R, the outstanding junior subordinated debentures related to these trust preferred securities were reclassified to "other borrowings" at December 31, 2003, from the separate disclosure on the balance sheet prior to that date.

**CAPITAL LEASE OBLIGATION**

On January 1, 2004, Old National entered into a long-term capital lease obligation for a new branch office building in Owensboro, Kentucky, which extends for 25 years with one renewal option for 10 years. The economic substance of this lease is that Old National is financing the acquisition of the building through the lease and accordingly, the building is recorded as an asset and the lease is recorded as a liability. The fair value of the capital lease obligation was estimated using a discounted cash flow analysis based on Old National's current incremental borrowings rate for similar types of borrowing arrangements. At June 30, 2004, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)	<b>Minimum Lease Payments</b>
<b>For the year ending:</b>	
2004 remaining	\$ 185
2005	371
2006	371
2007	371
2008	371
Thereafter	13,265
Total minimum lease payments	14,934
Less amounts representing interest	10,398
Present value of net minimum lease payments	\$ 4,536

## NOTE 10 - EMPLOYEE BENEFIT PLANS

### RETIREMENT PLAN

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
(dollars in thousands)	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Service cost	\$ 485	\$ 460	\$ 1,022	\$ 946
Interest cost	999	1,000	1,974	1,846
Expected return on plan assets	(901)	(636)	(1,752)	(1,140)
Amortization of prior service cost	8	8	16	16
Amortization of transitional asset	(108)	(108)	(216)	(216)
Recognized actuarial loss	392	348	789	597
Net periodic benefit cost	\$ 875	\$ 1,072	\$ 1,833	\$ 2,049

### STOCK OPTIONS

On February 2, 2004, Old National granted 0.3 million stock options to key employees at an option price of \$21.45, the closing price of Old National's stock on that date. The options vest 100% on December 31, 2004, and expire in ten years. On January 31, 2003, Old National granted 2.6 million stock options to key employees at an option price of \$21.71, the closing price of Old National's stock on that date. The options vest 25% per year over a four-year period and expire in ten years. If certain financial targets are achieved, vesting is accelerated. Old National is authorized to grant up to 7.3 million shares of common stock under the 1999 Equity Incentive Plan. At June 30, 2004, Old National had 6.2 million of stock options outstanding.

Old National applies APB Opinion No. 25 and related Interpretations in accounting for the stock option plan. Accordingly, no compensation costs have been recognized. See Note 2 for proforma net income and net income per share data.

### RESTRICTED STOCK

Subsequent to June 30, 2004, Old National's Board of Directors approved a restricted stock award under the 1999 Equity Incentive Plan covering certain key officers. The grants, approved on July 22, 2004, are earned at the end of a three-year period based on the achievement of certain targets. Shares are subject to certain restrictions and risk of forfeiture by the participants.

## NOTE 11 - INCOME TAXES

The following is a summary of the major items comprising the differences in taxes computed at the federal statutory rate and as recorded in the consolidated statement of income for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2004	2003	2004	2003
Provision at statutory rate of 35%	\$ 3,515	\$12,221	\$11,490	\$23,967
Tax-exempt income	(4,595)	(5,281)	(9,400)	(9,658)
Other, net	(161)	911	(54)	840
Income tax expense (benefit)	\$(1,241)	\$ 7,851	\$ 2,036	\$15,149
Effective tax rate	(12.4) %	22.5 %	6.2 %	22.1 %

For the three and six months ended June 30, 2004, the effective tax rate was significantly lower than for the three and six months ended June 30, 2003. The decrease in the effective tax rate resulted from a higher percentage of tax-exempt income to total income for the three and six months ended June 30, 2004.

## NOTE 12 - COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2004	2003	2004	2003
Net income:	\$ 11,283	\$ 27,067	\$ 30,792	\$ 53,327
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period, net of tax	(62,283)	21,883	(40,354)	18,034
Less: reclassification adjustment for securities gains realized in net income, net of tax	(13)	(14,045)	(1,163)	(15,659)
Cash flow hedges:				
Net unrealized derivative gains on cash flow hedges, net of tax	151	1,157	516	998
Less: reclassification adjustment on cash flow hedges, net of tax	47	44	94	88
Net unrealized gains (losses)	(62,098)	9,039	(40,907)	3,461
Comprehensive income (loss)	\$(50,815)	\$ 36,106	\$(10,115)	\$ 56,788

## NOTE 13 - COMMITMENTS AND CONTINGENCIES

### LITIGATION

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

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

During the fourth quarter of 2003, Old National established a reserve of \$10 million for settlement of certain of the lawsuits. As of June 30, 2004, Old National has paid \$9.1 million of this reserve to settle a number of lawsuits representing approximately \$12 million in actual damages. Old National has obtained a summary judgement in its favor at the trial court level on lawsuits representing \$16 million of the estimated \$31 million exposure. These cases are currently on appeal to the Court of Appeals in Illinois. The approximate \$0.9 million remaining in the reserve for litigation settlement is deemed at this time to be adequate to cover the remaining exposure of approximately \$3

million. It is not expected that future judgments or settlements in these matters will have a material impact on Old National's results of operations.

#### **BUILDING COMMITMENT**

On October 11, 2002, Old National entered into a \$52 million contract awarded to a company controlled by a director for the construction of its Evansville-based main banking center and bank headquarters. Construction began on June 27, 2002, and is expected to be complete August 11, 2004.

#### **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 \$1.345 billion, commercial letters of credit of \$16.3 million and standby letters of credit of \$101.9 million at June 30, 2004. At June 30, 2003, loan commitments were \$1.301 billion, commercial letters of credit were \$38.5 million and standby letters of credit were \$70.0 million. These commitments are not reflected in the consolidated financial statements. No material losses are expected to result from these transactions.

At June 30, 2004 and 2003, Old National had credit extensions of \$72.1 million and \$64.5 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's customers. At June 30, 2004 and 2003, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling \$41.3 million and \$27.1 million, respectively. Old National did not provide collateral for the remaining credit extensions.

#### **NOTE 14 - FINANCIAL GUARANTEES**

Old National holds instruments, in the normal course of business with customers, that are considered financial guarantees in accordance with FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Standby letters of credit guarantees are issued in connection with agreements made by customers to counterparties. Standby letters of credit are contingent upon failure of the customer 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 customers and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At June 30, 2004, the notional amount of standby letters of credit was \$101.9 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.4 million.

Old National also enters into forward contracts for the future delivery of conforming residential real estate loans at a specified interest rate to reduce interest rate risk associated with loans held for sale. These forward contracts are considered derivative instruments accounted for under SFAS No. 133. See additional information in Note 16 to the consolidated financial statements of the 2003 annual report.

#### **NOTE 15 - SEGMENT INFORMATION**

Old National operates in three reportable segments: community banking, non-bank services 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. The non-bank services segment combines the management and operations of trust, asset management, insurance, brokerage and investment and annuity sales. 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 customers.

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



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

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

The following table summarizes financial information concerning segments for the three and six months ended June 30:

(dollars in thousands)	Community Banking	Non-bank Services	Treasury	Other	Total
<b>Three months ended June 30, 2004</b>					
Net interest income	\$ 71,862	\$ 166	\$ (3,341)	\$ (3,530)	\$ 65,157
Provision for loan losses	7,442	-	58	-	7,500
Noninterest income	24,117	24,545	2,271	139	51,072
Noninterest expense	73,673	26,603	1,802	(3,391)	98,687
Income tax expense (benefit)	2,965	(624)	(3,582)	-	(1,241)
Segment profit	11,899	(1,268)	652	-	11,283
Total assets	5,383,787	119,654	3,392,650	136,778	9,032,869
<b>Three months ended June 30, 2003</b>					
Net interest income	\$ 69,762	\$ 69	\$ (2,848)	\$ 1,482	\$ 68,465
Provision for loan losses	22,500	-	-	-	22,500
Noninterest income	21,371	18,145	22,543	854	62,913
Noninterest expense	55,147	16,382	95	2,336	73,960
Income tax expense	3,138	630	4,083	-	7,851
Segment profit	10,348	1,202	15,517	-	27,067
Total assets	5,900,226	98,380	3,622,543	116,568	9,737,717
<b>Six months ended June 30, 2004</b>					
Net interest income	\$ 142,053	\$ 308	\$ (5,250)	\$ (6,843)	\$ 130,268
Provision for loan losses	14,884	-	116	-	15,000
Noninterest income	39,147	48,508	6,370	2,675	96,700
Noninterest expense	133,143	47,764	2,401	(4,168)	179,140
Income tax expense (benefit)	7,366	331	(5,661)	-	2,036
Segment profit	25,807	721	4,264	-	30,792
Total assets	5,383,787	119,654	3,392,650	136,778	9,032,869
<b>Six months ended June 30, 2003</b>					
Net interest income	\$ 139,974	\$ 123	\$ (4,308)	\$ 2,479	\$ 138,268
Provision for loan losses	31,500	-	-	-	31,500
Noninterest income	41,765	35,098	27,011	1,959	105,833
Noninterest expense	107,611	31,740	336	4,438	144,125
Income tax expense	11,654	1,195	2,300	-	15,149
Segment profit	30,974	2,286	20,067	-	53,327
Total assets	5,900,226	98,380	3,622,543	116,568	9,737,717

## **PART I. FINANCIAL INFORMATION**

### **ITEM 2.**

#### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

##### **EXECUTIVE SUMMARY**

Net income for the three and six months ended June 30, 2004, decreased significantly compared to the three and six months ended June 30, 2003, impacted primarily by nonrecurring charges related to "Ascend" and decreased securities gains, offset in part by reduced provisions for loan losses. See "Results of Operations" for further information on "Ascend".

Old National's financial condition showed a decrease in assets and liabilities at June 30, 2004, compared to June 30, 2003 and December 31, 2003, which is reflective of a large residential real estate loan sale, a reduction in the commercial loan portfolio, a reduction in the investment portfolio, and a reduction of certificates of deposits and borrowed funds. Management uses various indicators such as return on assets, return on equity and asset quality ratios to evaluate the performance of the business. These are discussed throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

##### **FINANCIAL BASIS AND FORWARD-LOOKING STATEMENTS**

This discussion analyzes Old National's results of operations for the three and six months ended June 30, 2004 and 2003, and financial condition as of June 30, 2004, compared to June 30, 2003 and December 31, 2003.

This management's discussion and analysis contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include expressions such as "expects," "intends," "believes," "anticipates," and "should," which are statements of belief as to the expected outcomes of future events. Internal and external factors that might cause a difference include, but are not limited to, market, economic, operational, liquidity, credit and interest rate risks associated with Old National's business, competition, government legislation and policies, ability of Old National to execute its business plan and implement the "Ascend" project initiatives, credit quality trends and the ability to generate loans, and other matters discussed in this management's discussion and analysis. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Actual results could materially differ from those presented. Old National undertakes no obligation to release revisions to these forward-looking statements or reflect events or conditions after the date on which the forward-looking statement is made or to reflect the occurrence of unanticipated events.

##### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

- **Allowance for Loan Losses.** The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the consolidated loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, 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.

- **Mortgage Servicing Rights.** Mortgage servicing rights are recognized as separate assets when loans are sold with servicing retained. The total price of loans sold is allocated between the loans sold and the mortgage servicing rights retained based on the relative fair values of each. The fair value of capitalized mortgage servicing rights is estimated by calculating the present value of estimated future net servicing income derived from related cash flows. Amortization of capitalized mortgage servicing rights is determined in proportion to and over the period of estimated net servicing income of the underlying financial assets. Impairment of mortgage servicing rights exists if the book value of the mortgage servicing rights exceeds its estimated fair value. In determining impairment, mortgage servicing rights are stratified by interest rates. Critical assumptions used in determining fair value include expected mortgage loan prepayment rates, discount rates and other economic factors, which are determined based on current market conditions. The expected rates of mortgage loan prepayments are the most significant factors driving the value of mortgage servicing rights. Increases in expected mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. Fair values, using estimated mortgage loan prepayment rates, are derived from a third-party statistical model. Negative adjustments to the value, if any, are recognized through a valuation allowance by charges against mortgage servicing income. The use of a valuation allowance enables the recovery of this value as market conditions become more favorable.
- **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 with subsequent reversal of the impairment loss being prohibited. The determination of fair values are 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 intangibles 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.

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

## RESULTS OF OPERATIONS

### Earnings Summary

Old National reported net income of \$11.3 million for the three months ended June 30, 2004, a reduction of \$15.8 million or 58.3% from the \$27.1 million recorded for the three months ended June 30, 2003. For the six months ended June 30, 2004, net income was \$30.8 million, a reduction of 42.3% from the \$53.3 million recorded for the six months ended June 30, 2003. On a diluted per share basis, net income was \$0.17 for the three months ended June 30, 2004, compared to \$0.41 for the three months ended June 30, 2003. Diluted earnings per share were \$0.46 for the six months ended June 30, 2004, compared to \$0.80 for the six months ended June 30, 2003.

The decrease in the results of operations for the three months ended June 30, 2004, compared to the three months ended June 30, 2003, was primarily attributable to the nonrecurring pre-tax charges relating to "Ascend" of \$25.1 million, or \$17.2 million after tax. The details of these expenses are discussed further in the "Noninterest Expense" section of this "Management's Discussion and Analysis". Also, see additional information on "Ascend" below. Positive factors affecting the results of operations for the three months ended June 30, 2004, as compared to the three months ended June 30, 2003, included increased insurance related revenues, increased mortgage banking revenue related to a large residential real estate loan sale and the full recovery of the mortgage servicing rights valuation allowance, and decreased provisions for loan losses. These factors were offset by reduced securities gains during the three months ended June 30, 2004, compared to the three months ended June 30, 2003.

Results of operations for the six months ended June 30, 2004, compared to the six months ended June 30, 2003, were primarily affected by the nonrecurring charges relating to "Ascend" discussed above. Other factors included increased insurance related revenues and reduced provisions for loan losses which were offset by decreased mortgage origination activity, reduced securities gains, and severance payments to three executive officers who left the company during the first quarter of 2004.

For the three months ended June 30, 2004, Old National's return on average assets was 0.49% and return on shareholders' equity was 6.34%, compared to 1.12% and 14.28%, respectively, for the three months ended June 30, 2003. Old National's return on average assets was 0.67% and return on shareholders' equity was 8.54% for the six months ended June 30, 2004, compared to 1.11% and 14.16% for the six months ended June 30, 2003, respectively.

The company-wide program, "Ascend," was announced in late 2003. The initial phase of the project was conducted with the assistance of EHS Partners and was an intense evaluation of every aspect of operations for expense reductions and revenue growth ideas. At June 30, 2004, "Ascend" was in the implementation phase. Initiatives arising from the project are currently on schedule, with expectations of full implementation by the end of 2005. Old National is expecting to realize approximately \$77.0 million in annualized pre-tax earnings assuming the full implementation of these initiatives, excluding implementation charges of \$25.1 million. Approximately \$42.0 million of the annualized benefit is expected to be derived from efficiency improvement/cost reduction initiatives. Revenue enhancement initiatives are expected to account for \$24.0 million in revenue, and new products and services are expected to realize \$11.0 million. Revenue and new product related benefits projections are net of \$9.0 million of expenses expected to be necessary to implement the ideas.

### **Net Interest Income**

Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources and interest rate fluctuations. Net interest income and net interest margin in the following discussion is 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. Net income is unaffected by these taxable equivalent adjustments as the offsetting increase of the same amount is made in the income tax section. Net interest income included taxable equivalent adjustments of \$6.0 million and \$6.3 million for the three months ended June 30, 2004 and 2003, respectively. Taxable equivalent adjustments for the six months ended June 30, 2004 and 2003, were \$12.1 million and \$12.7 million, respectively.

Taxable equivalent net interest income was \$71.2 million and \$142.4 million for the three and six months ended June 30, 2004, respectively, compared to \$74.8 million and \$151.0 million reported for the three and six months ended June 30, 2003, respectively. The reduction in net interest income reflects a smaller portfolio of average earning assets when compared to the three and six months ended June 30, 2003. Average earning assets were \$8.435 billion for the three months ended June 30, 2004, compared to \$8.940 billion for the three months ended June 30, 2003, a decrease of 5.6% or \$505.0 million. Average earning assets were \$8.448 billion for the six months ended June 30, 2004, compared to \$8.868 billion for the six months ended June 30, 2003, a decrease of 4.7% or \$420.0 million. The net interest margin was relatively unchanged at 3.38% and 3.37% for the three and six months ended June 30, 2004, respectively, compared to 3.35% and 3.41% for the three and six months ended June 30, 2003, respectively.

The decrease in interest rates during 2003 and early 2004 had a significant impact on the mix and yield of earning assets. Driven by lower rates, many of the company's residential real estate loans were refinanced in 2003. Because new loan production was sold into the secondary loan market, residential real estate loans declined in 2003 and

2004. Additionally, commercial and commercial real estate loans did not grow appreciably during 2003 or during the first six months of 2004, a result of continued weak loan demand in Old National's markets and more stringent loan underwriting standards. In a continuation of a strategy begun during 2003, the company reduced its investment portfolio assets during the first quarter of 2004 because of the narrow spreads available on those assets in the current rate environment.

#### **Provision for Loan Losses**

The provision for loan losses was \$7.5 million and \$15.0 million for the three and six months ended June 30, 2004, respectively, compared to \$22.5 million and \$31.5 million for the three and six months ended June 30, 2003, respectively. The lower provisions in 2004 are the result of improvements in credit quality as well as the continued reduction in classified loans. The higher provision in 2003 was driven by the negative impact of the weak regional economy on the loan portfolio. Refer to "Allowance for Loan Losses and Asset Quality" section for further discussion of non-performing loans, charge-offs and additional items impacting the provision.

#### **Noninterest Income**

Noninterest income for the three months ended June 30, 2004, was \$51.1 million, a decrease of \$11.8 million, or 18.8% over the \$62.9 million reported for the three months ended June 30, 2003. For the six months ended June 30, 2004, noninterest income amounted to \$96.7 million, a decrease of \$9.1 million or 8.6% over the \$105.8 million reported for the six months ended June 30, 2003. Total fee and service charge income, excluding gains on sales of securities, was \$51.1 million and \$94.7 million for the three and six months ended June 30, 2004, respectively compared to \$42.2 million and \$82.4 million for the three and six months ended June 30, 2003, respectively.

Primarily as a result of various insurance agency acquisitions beginning in the second quarter of 2003, insurance premiums and commissions, the largest component of this category of revenue, increased to \$14.4 million and \$28.9 million for the three and six months ended June 30, 2004, compared to \$9.1 million and \$17.3 million for the three and six months ended June 30, 2003, a 58.6% and 66.9% increase, respectively.

Mortgage banking revenue increased to \$7.1 million for the three months ended June 30, 2004, compared to \$4.9 million for the three months ended June 30, 2003, a \$2.2 million or 46.7% increase. This increase was primarily attributable to both the \$405.6 million residential real estate loan sale during the second quarter of 2004 that resulted in a \$2.7 million gain and the \$2.6 million recovery of the mortgage servicing rights valuation allowance. These factors more than compensated for the decrease in mortgage origination activity during the three months ended June 30, 2004, compared to the three months ended June 30, 2003, that resulted from rising interest rates. For the six months ended June 30, 2004, mortgage banking revenue was \$6.8 million compared to \$9.3 million for the six months ended June 30, 2003, a \$2.5 million or 26.4% decrease. Residential real estate loan originations for the six months ended June 30, 2004, were \$332.7 million compared to \$724.7 million for the six months ended June 30, 2003.

Net securities gains decreased by \$20.7 million and \$21.5 million for the three and six months ended June 30, 2004 and 2003, respectively. The gains in 2003 were part of a continuing strategy to address interest rate and yield curve shifts.

#### **Noninterest Expense**

Noninterest expense for the three months ended June 30, 2004, totaled \$98.7 million, an increase of \$24.7 million or 33.4% over the three months ended June 30, 2003. For the six months ended June 30, 2004, noninterest expense was \$179.1 million, an increase of \$35.0 million or 24.3% over the \$144.1 million recorded for the six months ended June 30, 2003.

Salaries and benefits, the largest component of noninterest expense, totaled \$53.5 million for the three months ended June 30, 2004, compared to \$44.1 million for the three months ended June 30, 2003, an increase of \$9.4 million or 21.3%. For the six months ended June 30, 2004, salaries and benefits amounted to \$102.8 million compared to \$85.8 million recorded for the six months ended June 30, 2003, an increase of \$17.0 million or 19.8%. These increases are primarily attributable to nonrecurring expenses related to "Ascend", including severance costs for employees whose positions have been or will be eliminated and expenses related to broad-based incentive programs for employees participating in the "Ascend" project. Other factors significantly affecting the increase in salaries and employee benefits for the six months ended June 30, 2004, included \$2.9 million in severance expense related to three senior executives, including the chief executive officer, who left the company during the first quarter of 2004.

and additional expenses attributable to acquisitions of insurance agencies that occurred after the first quarter of 2003.

As described in Note 10 to the consolidated financial statements, restricted stock awards were approved by the Board of Directors on July 22, 2004, under the 1999 Equity Incentive Plan. It is estimated that 240,000 shares of common stock will be issued to approximately 150 participants subject to certain restrictions and risk of forfeiture by the participants. The related increase in salaries and employee benefits during the performance period will vary based on many factors, including participant changes and actual performance results.

Professional fees totaled \$17.0 million for the three months ended June 30, 2004, compared to \$2.5 million for the three months ended June 30, 2003. For the six months ended June 30, 2004, professional fees were \$20.1 million compared to \$4.9 million for the six months ended June 30, 2003. Consulting fees paid to EHS Partners during 2004 in connection with "Ascend" accounted for the majority of these increases.

All other components of noninterest expense totaled \$28.1 million for the three months ended June 30, 2004, compared to the \$27.4 million for the three months ended June 30, 2003. For the six months ended June 30, 2004 and 2003, all other components of noninterest expense totaled \$56.2 million and \$53.5 million, respectively. These increases are primarily attributable to write-downs of surplus real estate of \$1.0 million in connection with "Ascend" during the three months ended June 30, 2004. Also affecting the increase for the six months ended June 30, 2004, was \$1.4 million in write-downs of foreclosed real estate during the quarter ended March 31, 2004.

A summary of nonrecurring expenses related to "Ascend" are summarized below:

	Three Months Ended
(dollars in thousands)	June 30, 2004
Professional fees	\$14,564
Salaries and employee benefits	9,427
Other	1,074
Total "Ascend" expenses	\$25,065

Refer to "Earnings Summary" of this "Management's Discussion and Analysis" for a further discussion of "Ascend".

### Provision for Income Taxes

Old National records a provision for income taxes currently payable and for income taxes payable in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to Old National's financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The income tax benefit, as a percentage of pre-tax income, was 12.4% for the three months ended June 30, 2004, compared to the provision for income tax expense of 22.5% for the three months ended June 30, 2003. The provision for income tax expense, as a percentage of pre-tax income, was 6.2% for the six months ended June 30, 2004, compared to 22.1% for the six months ended June 30, 2003. The decreased effective tax rate in 2004 resulted from a higher percentage of tax-exempt income to total income.

## FINANCIAL CONDITION

### Overview

For the three and six months ended June 30, 2004, Old National continued balance sheet strategies initiated in the second half of 2003 to mitigate its sensitivity to rising interest rates, including continued reductions in the investment and residential real estate loan portfolios as well as reductions in certificates of deposit and borrowed funds. Old National's assets at June 30, 2004, were \$9.033 billion, a 7.2% decrease compared to June 30, 2003, and a 6.9% decrease compared to December 31, 2003. Investments and loans decreased \$559.4 million and \$464.1 million, respectively, since June 30, 2003, and decreased \$156.9 million and \$462.9 million, respectively, since December 31, 2003. Total liabilities declined \$612.5 million compared to June 30, 2003, and \$278.8 million since December 31, 2003.

Total shareholders' equity decreased \$92.4 million from June 30, 2003, and decreased \$42.2 million compared to December 31, 2003, primarily as a result of changes in the unrealized gain (loss) on investment securities. At June 30, 2004, accumulated other comprehensive income, of which the largest component is unrealized gains (losses) on securities, was a net loss of \$26.3 million compared to a net gain of \$55.3 million at June 30, 2003, and a net gain of \$14.6 million gain at December 31, 2003.

### **Earning Assets**

Old National's earning assets are comprised of loans and loans held for sale, investment securities and money market investments. Earning assets were \$8.175 billion at June 30, 2004, a decrease of 8.8% from June 30, 2003, and a decrease of 8.1% since December 31, 2003. The reduction in earning assets is due to a continuation of balance sheet strategies initiated by management during the second half of 2003. Old National reduced its investment portfolio in light of fewer attractive investment opportunities and the company's desire to reduce its sensitivity to rising interest rates. Total loans at June 30, 2004, including residential loans held for sale, decreased \$493.5 million compared to June 30, 2003, and \$452.4 million compared to December 31, 2003. This decrease can be attributed primarily to the sale of \$405.6 million in residential real estate loans during the three months ended June 30, 2004, and to continued weakness in commercial lending. These decreases are partially offset by the growth in consumer loans. Money market investments at June 30, 2004, increased by \$266.5 million from June 30, 2003, and \$266.3 million from December 31, 2003, which is attributable to the investment of a portion of the proceeds from the sale of residential real estate loans during the three months ended June 30, 2004.

### **Investment Securities**

Old National has classified all investment securities as available-for-sale or held-to-maturity on the date of purchase. The majority of Old National's investment securities are classified as available-for-sale, which gives 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 June 30, 2004, the investment securities portfolio was \$2.760 billion compared to \$3.320 billion at June 30, 2003, a decrease of \$559.4 million or 16.9%. Investment securities decreased \$156.9 million at June 30, 2004, compared to December 31, 2003, a decrease of 10.8%. Investment securities represented 33.8% of earning assets at June 30, 2004, compared to 37.0% at June 30, 2003, and 34.2% at December 31, 2003. During the first half of 2003, Old National increased the investment portfolio as a short-term alternative source of earning assets to offset declining residential real estate and minimal commercial and consumer loan growth. During the second half of 2003 and continuing into 2004, Old National decreased the size of the investment portfolio and used the cash flows generated by the declining investment portfolio to reduce borrowed funds. Stronger economic activity and stronger commercial loan demand would likely result in increased investments in loans and a reduction in the investment securities portfolio.

The investment securities available-for-sale portfolio had net unrealized losses of \$44.4 million at June 30, 2004, compared to net unrealized gains of \$88.5 million at June 30, 2003, and \$23.7 million at December 31, 2003. The decrease of \$132.9 million and \$68.1 million, respectively, was the result of higher market interest rates and a smaller portfolio of securities available-for-sale at June 30, 2004.

The investment portfolio had an average life of 5.05 years at June 30, 2004, compared to 4.01 years at June 30, 2003, and 4.86 years at December 31, 2003. The average yield on investment securities, on a taxable equivalent basis, was 4.68% for the three months ended June 30, 2004, compared to 4.59% for the three months ended June 30, 2003, and 4.70% for the three months ended December 31, 2003. Average yields on investment securities, on a taxable equivalent basis, were 4.76%, 4.60%, and 4.98% for the six months ended June 30, 2004 and 2003, and for the year ended December 31, 2003, respectively. The decrease from December 31, 2003 to June 30, 2004, was primarily due to prepayments of mortgage-backed securities and calls of higher coupon agency securities that left lower coupon securities in the portfolio.

### **Residential Loans Held for Sale**

Residential loans held for sale were \$26.8 million at June 30, 2004, compared to \$56.3 million at June 30, 2003, and \$16.3 million at December 31, 2003. Residential loans held for sale are loans that are closed, but not yet sold on the secondary market. The amount of residential loans held for sale on the balance sheet varies depending on the timing of movement of originations and loan sales to the secondary market. At June 30, 2004, residential real estate loan origination activity was down as compared to June 30, 2003, primarily due to a reduced level of loan refinancing.

### **Commercial and Consumer Loans**

Commercial and consumer loans are the largest classification within the earning assets of Old National representing 55.9% of earning assets at June 30, 2004, an increase from 52.2% at June 30, 2003, and 54.4% at December 31, 2003. At June 30, 2004, commercial and commercial real estate loans were \$3.377 billion, a decrease of \$208.5 million since June 30, 2003, and a decrease of \$89.9 million since December 31, 2003. During the third quarter of 2003, Old National sold \$48.2 million of non-performing commercial loans. Weak loan demand in Old National's markets impacted commercial loan growth in 2003 and continues into 2004.

At June 30, 2004, consumer loans, including automobile loans, personal and home equity loans and lines of credit, and student loans, increased \$105.0 million or 9.6% compared to June 30, 2003, and increased \$31.8 million or 5.5% since December 31, 2003, primarily due to enhancements to marketing and customer contact programs.

### **Residential Real Estate Loans**

Residential real estate loans, primarily 1-4 family properties, have decreased in significance to the loan portfolio over the past five years due to higher levels of loan sales into the secondary market, primarily to Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. Old National sells the majority of residential real estate loans it originates as a strategy to better manage interest rate risk and liquidity. These loans are generally sold with loan servicing retained in order to maintain customer relationships and generate noninterest income and fees. By using this strategy, Old National is able to recognize an immediate gain in noninterest income versus a small net interest income spread over a longer period of time. Old National sells the majority of the residential real estate loans without recourse, currently having less than 1% of loans sold with recourse.

At June 30, 2004, residential real estate loans were \$534.7 million, a decrease of \$360.6 million or 40.3% from June 30, 2003, and \$404.7 million or 86.2% from December 31, 2003. The sale of \$405.6 million of residential real estate loans during the three months ended June 30, 2004, was the most significant contributor to this decrease. In comparison, Old National's residential real estate loan portfolio was also affected by the sales of \$14.5 million of delinquent loans in the second and third quarters of 2003. These sales were to improve credit quality and reduce the level of non-performing loans and are not a part of Old National's ongoing strategy.

### **Allowance for Loan Losses and Asset Quality Administration**

Old National monitors the quality of its loan portfolio on an on-going basis and uses a combination of detailed credit assessments by relationship managers and credit officers, historic loss trends, and economic and business environment factors in determining its allowance for loan losses. Old National records provisions for loan losses based on current loans outstanding, 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.

Each month, problem loan reports are prepared and reviewed, which include borrowers that show indications of being unable to meet debt obligations in the normal course of business, and loans which have other characteristics deemed by bank management to warrant special attention or have been criticized by regulators in the examination process. Classified loans include non-performing loans, past due 90 days and other problem loans while criticized loans, also known as special mention loans, are loans that have potential weaknesses that deserve management's close attention and require specific quarterly reviews by the bank.

Assets determined by the various evaluation processes to be under-performing receive special attention by Old National management. Under-performing assets consist of: 1) nonaccrual loans where the ultimate collectibility of interest or principal is uncertain; 2) loans renegotiated in some manner, primarily to provide for a reduction or deferral of interest or principal payments because the borrower's financial condition deteriorated; 3) loans with principal or interest past due ninety (90) days or more; and 4) foreclosed properties.

A loan is generally placed on nonaccrual status when principal or interest become 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. When loans are classified as nonaccrual, interest accrued during the year is reversed against earnings; interest accrued in the prior year, if any, is charged to the allowance for loan losses. Cash received while a loan is classified as nonaccrual is recorded to principal.



Old National analyzes on a semi-annual basis the composition of the loan portfolio to determine if there is any concentration of loans in any single industry exceeding 10% of its portfolio, and has determined that no such concentration exists as of June 30, 2004, as measured by Old National. In addition, Old National has no exposure to foreign borrowers or lesser-developed countries.

#### **Allowance for Loan Losses and Asset Quality**

At June 30, 2004, the allowance for loan losses was \$103.6 million, an increase of \$5.6 million compared to \$98.0 million at June 30, 2003, and a decrease of \$1.0 million compared to \$104.6 million at December 31, 2003. As a percentage of total loans, including loans held for sale, the allowance increased to 2.02% at June 30, 2004, from 1.74% at June 30, 2003, and 1.87% from December 31, 2003. The improvement in coverage of total loans at June 30, 2004, is a result of increased provisions during 2003 followed by reductions in total loans during 2004, primarily the sale of \$405.6 million of residential real estate loans during the three months ended June 30, 2004.

For the three months ended June 30, 2004, the provision for loan losses amounted to \$7.5 million, a decrease of \$15.0 million from the three months ended June 30, 2003. The provision for the six months ended June 30, 2004, amounted to \$15.0 million compared to \$31.5 million for the six months ended June 30, 2003. The reduced provisions are reflective of a decline in every category of under-performing assets and total criticized and classified loans since June 30, 2003 and December 31, 2003, as further discussed below.

Net charge-offs for the three months ended June 30, 2004, including write-downs of \$1.2 million on the residential real estate loans sold, totaled \$12.5 million compared to \$8.5 million for the three months ended June 30, 2003, which included \$2.2 million in write-downs on residential real estate loans sold. Net charge-offs for the six months ended June 30, 2004, including \$1.2 million of write-downs on the residential real estate loans sold, totaled \$16.0 million compared to \$21.2 million for the six months ended June 30, 2003, which included \$2.2 million in write-downs on residential real estate loans sold. This decrease is reflective of the improvement in total charge-offs and under-performing assets. Net charge-offs to average loans were 0.89% and 0.57% for the three and six months ended June 30, 2004, respectively, as compared to 0.60% and 0.75% for the three and six months ended June 30, 2003.

Under-performing assets totaled \$102.9 million at June 30, 2004, a decrease of \$58.0 million from June 30, 2003, and significantly lower than the \$118.5 million at December 31, 2003. As a percent of total loans and foreclosed properties, under-performing assets at June 30, 2004, were 2.00%, a reduction from the June 30, 2003 ratio of 2.85% and the December 31, 2003 ratio of 2.12%. Nonaccrual loans improved to \$97.6 million at June 30, 2004, compared to \$146.4 million at June 30, 2003, and \$104.6 million at December 31, 2003. Changes to separate the loan production functions from the underwriting functions, significant strengthening of the commercial underwriting processes and the elevation of the Credit Policy Committee to a board level committee have all served to continue the emphasis on improving credit quality over the past year. Management believes that it has appropriately identified and reserved for loan losses related to nonaccrual loans at June 30, 2004. Approximately \$37.6 million of nonaccrual loans less than thirty days delinquent were contractually performing at June 30, 2004. Management will continue its efforts to reduce the level of non-performing loans and may consider the possibility of additional sales of troubled and non-performing loans, which could result in additional write-downs to the allowance for loan losses.

The total portfolio of loans identified by Old National as problem credits continues to decline. Total classified and criticized loans were \$492.4 million at June 30, 2004, a decrease of \$123.2 million from June 30, 2003, and \$67.2 million from December 31, 2003. While the absolute level of classified and criticized loans at June 30, 2004, decreased, management believes it has taken a prudent approach to the evaluation of under-performing credits and the loan portfolio in general, both in acknowledging the portfolio's general condition and in establishing the allowance for loan losses.

Old National has been affected by weakness in the economy of its markets, which has resulted in minimal growth of commercial loans and tighter credit underwriting standards. Management expects that trends in nonaccrual loans will be influenced by the degree to which the economy strengthens. The longer the significant softness in manufacturing continues, the more stress it puts on Old National's borrowers, increasing the potential for additional nonaccrual loans.

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

	June 30,		December 31,
(dollars in thousands)	2004	2003	2003
Nonaccrual loans	\$ 97,620	\$146,388	\$104,627
Renegotiated loans	-	-	-
Past due loans (90 days or more)	1,354	5,584	5,120
Foreclosed properties	3,879	8,862	8,763
Total under-performing assets	\$102,853	\$160,834	\$118,510
Classified loans (includes non-performing loans, past due 90 days and other problem loans)	\$307,873	\$424,125	\$343,943
Criticized loans	184,548	191,468	215,700
Total criticized and classified loans	\$492,421	\$615,593	\$559,643
Asset Quality Ratios: (1)			
Non-performing loans/total loans (1) (2)	1.90 %	2.60 %	1.87 %
Under-performing assets/total loans and foreclosed properties (1)	2.00	2.85	2.12
Under-performing assets/total assets	1.14	1.65	1.27
Allowance for loan losses/under-performing assets	100.77	60.95	88.24

(1) Items referring to loans are net of unearned income and include residential loans held for sale.

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

### Premises and Equipment

Premises and equipment was \$201.7 million at June 30, 2004, an increase of \$50.3 million or 33.2% since June 30, 2003, and an increase of \$20.3 million or 22.4% since December 31, 2003. The increase is primarily due to the construction-in-progress of Old National's Evansville-based corporate headquarters and main banking center. The building is expected to be complete August 11, 2004, at which time additional equipment and occupancy expenses will begin.

### Goodwill and Other Intangible

Goodwill was \$129.3 million at June 30, 2004, an increase of \$14.2 million since June 30, 2003. The increase is attributable to acquisitions in the non-bank segment of the company in the second and third quarters of 2003. Also as a result of these acquisitions, other intangible assets related to customer business relationships increased to \$40.3 million at June 30, 2004, from \$31.0 million at June 30, 2003. Old National performs impairment testing of goodwill and other intangibles on an annual basis. As of June 30, 2004 and 2003, there was no impairment.

### Funding

Total funding, comprised of deposits and wholesale borrowings, was \$8.229 billion at June 30, 2004, a decrease of 6.5% from \$8.804 billion at June 30, 2003, and a decrease of 7.1% from \$8.532 billion at December 31, 2003. Total deposits were \$6.346 billion, including \$3.569 billion in transaction accounts and \$2.777 billion in time deposits at June 30, 2004. Total deposits decreased 2.0% or \$131.1 million compared to June 30, 2003, and 4.5% or \$146.8 million compared to December 31, 2003. Transaction accounts increased 2.7% or \$94.4 million compared to June 30, 2003, and 4.8% or \$84.3 million compared to December 31, 2003. Time deposits decreased 7.5% or \$225.5 million compared to June 30, 2003, and 15.4% or \$231.0 million compared to December 31, 2003. Old National experienced growth in demand deposits and other low cost transaction accounts offset by a reduction in time accounts when comparing these time periods due to the lower rate environment and customer preference for transaction accounts. The reduction in time accounts from June 30, 2004, compared to June 30, 2003 and December 31, 2003, was also due to the maturity of a group of higher interest rate certificates of deposits during the first quarter of 2004.

Old National uses wholesale funding to augment deposit funding and to help maintain its desired interest rate risk position. At June 30, 2004, wholesale borrowings, including short-term borrowings and other borrowings, decreased 19.1% and 15.3% from June 30, 2003 and December 31, 2003, respectively. Wholesale funding was increased during the first half of 2003 to finance investment portfolio growth, offset a reduction in certificates of deposits, and take advantages of favorable interest rates. During the second half of 2003 and continuing into 2004,

wholesale borrowings decreased as the investment portfolio growth slowed. Wholesale borrowings as a percentage of total funding was 22.9% at June 30, 2004, compared to 26.4% at June 30, 2003, and 23.9% at December 31, 2003. The lower level of earning assets, primarily due to a residential real estate loan sale of \$405.6 million during second quarter of 2004, reduced the company's reliance on wholesale funding.

#### Capital Resources and Regulatory Guidelines

Shareholders' equity totaled \$673.3 million at June 30, 2004, a reduction of 12.1% or \$92.4 million from June 30, 2003, and a decrease of 11.8% compared to December 31, 2003. A change from unrealized gains on investment securities at June 30, 2003 and December 31, 2003, to an unrealized loss at June 30, 2004, was the primary contributor to the decrease in shareholders' equity. Other factors contributing to the decrease were the reduction of net income during the three and six months ended June 30, 2004, related to nonrecurring "Ascend" charges as well as the decreased net income for the year ended December 31, 2003, compared to the year ended December 31, 2002.

As reflected in the Consolidated Statement of Changes in Shareholders' Equity, Old National paid cash dividends of \$0.19 and \$0.38 per share for the three and six months ended June 30, 2004, respectively, decreasing equity by \$25.2 million, compared to cash dividends of \$0.18 and \$0.36 per share for the three and six months ended June 30, 2003, respectively, (restated for the 5% stock dividend distributed on January 27, 2004), which decreased equity by \$24.2 million. Old National purchased shares of its stock in the open market under an ongoing repurchase program, reducing shareholders' equity by \$16.1 million during the six months ended June 30, 2004, and \$21.6 million during the six months ended June 30, 2003. Shares issued for stock options and stock purchase plans increased shareholders' equity by \$9.3 million during the six months ended June 30, 2004, compared to \$6.4 million during the six months ended June 30, 2003.

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.

	<b>Regulatory Guidelines Minimum</b>	<b>June 30, 2004</b>	<b>June 30, 2003</b>	<b>December 31, 2003</b>
<b>Risk-based capital:</b>				
Tier 1 capital to total avg assets (leverage ratio)	4.00 %	<b>7.48 %</b>	7.49 %	7.35 %
Tier 1 capital to risk-adjusted total assets	4.00	<b>11.31</b>	11.41	10.96
Total capital to risk-adjusted total assets	8.00	<b>15.07</b>	15.06	14.65
Shareholders' equity to assets	N/A	<b>7.45</b>	7.86	7.65

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### MARKET RISK MANAGEMENT

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

Old National manages interest rate risk within an overall asset and liability management framework that includes attention to credit risk, liquidity risk and capitalization. A principal objective of asset/liability management is to manage the sensitivity of net interest income to changing interest rates. Asset and liability management activity is governed by a policy reviewed and approved annually by the Board of Directors. The Board of Directors has delegated the administration of this policy to the Funds Management Committee, a committee of the Board of Directors, and the Balance Sheet Management Committee, a committee comprised of senior company management. The Funds Management Committee meets quarterly and oversees adherence to policy and recommends policy changes to the Board. The Balance Sheet Management Committee meets monthly and provides guidance to Treasury and other operating units of the company regarding the execution of asset and liability management strategies.

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 a useful tool 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 market 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 impact the company's net interest income and value, Old National recognizes that model outputs are not guarantees of actual results. For this reason, Old National models many different combinations of interest rates and balance sheet assumptions to best understand its overall sensitivity to market interest rate changes.

Old National's Board of Directors, through its Funds Management Committee, monitors the company's interest rate risk. The Funds Management Committee establishes policy guidelines for the allowable change in cumulative net interest income over a two-year period and the change in Economic Value of Equity in an up or down 200 basis point instantaneous parallel change to the yield curve (+/- 200 basis point yield curve shock). The current guideline for Net Interest Income at Risk is +/- 5% of net interest income over a two-year period in a 200 basis point shock to the yield curve. The current guideline for the allowable fluctuation in Economic Value of Equity is +/- 12% in a 200 basis point shock to the yield curve. In addition to the output of the model in up and down 200 basis points shocks to the yield curve, Old National has provided the output of its rate risk model in up and down 50 and 100 basis point yield curve shocks to provide a better understanding of Old National's sensitivity to market interest rate changes.

At June 30, 2004, modeling indicates that Old National was outside its policy of Net Interest Income at Risk in an up 200 basis points yield curve shock. Management is currently executing transactions to bring the company's sensitivity to rising rates back within its policy parameters. The following table shows Old National's market risk in various interest rate scenarios.

<b>Interest Rate Risk /Static Balance Sheet Model</b>				
<b>Interest Rate Change</b> (basis points)	<b>Estimated 24- Month Cumulative Impact On Net Interest Income</b>		<b>Estimated Change in Economic Value of Equity</b>	
	<b>Policy</b>	<b>Actual</b>	<b>Policy</b>	<b>Actual</b>
<b>2004</b>				
+200	+/- 5.00 %	-5.82 %	+/- 12.00 %	-10.81 %
+100		-2.41		-5.30
+50		-1.30		-2.98
-50		1.73 %		0.16 %
-100		1.90		0.22
-200	+/- 5.00 %	0.10	+/- 12.00 %	-7.05
<b>2003</b>				
+200	+/- 5.00 %	-0.10 %	+/- 12.00 %	-1.34 %
+100		0.34		0.51
+50		0.30		0.31
-50		-0.63 %		-2.75 %
-100		-2.11		-5.68
-200	+/- 5.00 %	-4.24	+/- 12.00 %	-15.09

The change in the modeled Net Interest Income at Risk in the up 200 basis point yield curve shock from June 30, 2003 to June 30, 2004, is due primarily to three factors. Earning assets decreased during the period, which reduced the model's static balance sheet projected net interest income. Secondly, the company's NOW and money market accounts, which have different rate sensitivity characteristics than time deposits, increased while customer time deposits decreased. Lastly, the average life of the investment portfolio increased by approximately one year due to rising rates.

Subsequent to June 30, 2004, Old National executed several transactions to reduce the company's sensitivity to rising rates. As of July 21, 2004, Old National estimates its net interest income exposure to be -5.04% and change in economic value of equity to be -10.48% in an up 200 basis points shock to the yield curve. The company's rate risk model output depicted in the preceding table is based on a static, or unchanged future balance sheet. Based on management's expected balance sheet, which includes expected growth in the company's loan portfolio and changes in the company's funding mix, Old National expects net interest income to be positively impacted by the market's current expectation of gradually increasing interest rates during the remainder of 2004 and into 2005.

Old National uses derivatives to manage interest rate risk in the ordinary course of business. See Note 16 to the consolidated financial statements of the 2003 annual report for a discussion of derivative financial instruments. These transactions serve to better balance the repricing of assets and liabilities in various rate change scenarios and protect the company from changes in interest rates.

## LIQUIDITY MANAGEMENT

The Funds Management Committee of the Board of Directors and the Balance Sheet Management Committee establish liquidity risk guidelines and monitor 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 to minimize funding risk. The company maintains strategic and contingency liquidity plans to ensure sufficient available funding to satisfy requirements for balance sheet growth, properly manage capital markets' funding sources and to address unexpected liquidity requirements.

Old National's ability to raise funding at competitive prices is influenced by rating agencies' views of the company's credit quality, liquidity, capital and earnings. The senior debt ratings of Old National Bancorp and Old National Bank at June 30, 2004, are shown in the following table.

### SENIOR DEBT RATINGS

	Standard and Poor's		Moody's Investor Services		Fitch, Inc.	
	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
Old National Bancorp	BBB	N/A	Baa1	N/A	BBB	F2
Old National Bank	BBB+	A2	A3	P-2	BBB	F2

N/A = not applicable

As of June 30, 2004, Old National Bank had the capacity to borrow \$919.7 million from the Federal Reserve Bank's discount window. Old National Bank is also a member of the Federal Home Loan Bank ("FHLB") of Indianapolis, which provides a source of funding through FHLB advances. Old National maintains relationships in capital markets with brokers and dealers to issue certificates of deposits and short-term and medium-term bank notes as well. In addition, at June 30, 2004, Old National had \$685 million available for issuance under a \$1 billion global bank note program for senior and subordinated debt.

Old National Bancorp, the parent company, has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. Old National Bancorp obtains funding to meet its obligations from dividends and management fees collected from its subsidiaries and the issuance of debt securities. At June 30, 2004, the parent company's other borrowings outstanding was \$265.1 million, compared with \$143.6 million at June 30, 2003. This increase in other borrowings was driven by the reclassification of guaranteed preferred beneficial interests in subordinated debentures as described in Note 9 to the consolidated financial statements. Old National Bancorp, the parent company, has debt scheduled to mature in the next 12-months of \$3.2 million. These debt obligations are expected to be met through current cash balances and dividends from subsidiaries. Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. For further information regarding dividend restrictions, see Note 19 to the consolidated financial statements of the 2003 annual report. At June 30, 2004, Old National had an SEC shelf registration in place for the issuance of \$200 million of preferred securities by a series of Trusts. Old National has issued \$150 million of these securities, called trust preferred securities, and has the capacity to issue an additional \$50 million.

#### ITEM 4. 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-14(c) 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 judgments in decision-making can be faulty, and that breakdowns can occur because of 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.

**PART II**  
**OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

NONE

**ITEM 2. CHANGES IN SECURITIES**

**ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publically Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
01/01/04 - 01/31/04	346,139	\$21.31	346,139	2,965,183
02/01/04 - 02/29/04	94,100	21.28	94,100	2,867,307
03/01/04 - 03/31/04	27,500	22.36	27,500	2,854,710
04/01/04 - 04/30/04	91,600	22.19	91,600	2,758,517
05/01/04 - 05/31/04	119,500	23.42	119,500	2,635,936
06/01/04 - 06/30/04	49,921	23.92	49,921	2,584,867
Year-to-date 6/30/04	728,760	\$22.14	728,760	2,584,867

NOTE: Old National announced on December 4, 2003, that the board of directors approved the continuation of the company's stock repurchase program up to 5% of the company's outstanding stock for 2004.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

NONE

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

At the April 29, 2004 Annual Meeting of Shareholders, the following matters were submitted to a vote of the shareholders. Election of Directors - The following directors were elected to Class II of the Board of Directors, each to hold office for three years (until the 2007 Annual Meeting) and until his or her successor shall have been duly elected and qualified:

	<b>Vote Counts</b>	
	<b>For</b>	<b>Withheld</b>
<b>Class II Directors (term ending 2007)</b>	-----	-----
David E. Eckerle	49,005,736	2,018,265
Niel C. Ellerbrook	48,768,771	3,481,596
Kelly N. Stanley	48,776,402	2,659,091

Ratification of the selection of Independent Public Accountants - PricewaterhouseCoopers LLP -  
For – 49,207,725; Votes Against – 1,149,351; Votes Abstained – 646,376; Broker nonvotes – 1,264,517

**ITEM 5. OTHER INFORMATION**

NONE

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

### (a) Exhibits

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

#### Exhibit Number

- 3 (i) Articles of Incorporation of Old National (incorporated by reference to Exhibit 3(i) of Old National's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
- 3 (ii) By-Laws of Old National, amended and restated effective April 22, 2004 (incorporated by reference to Exhibit 3(ii) of Old National's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
- 4 Instruments defining rights of security holders, including indentures  
  
Form of Indenture between Old National and Bank One Trust Company, 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).
- 10 Material contracts
  - (a) Form of Severance Agreement for Thomas F. Clayton, Michael R. Hinton, Daryl D. Moore and John S. Poelker, as amended (incorporated by reference to Exhibit 10(a) of Old National's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).\*
  - (b) Form of Change of Control Agreement for Thomas F. Clayton, Michael R. Hinton, Daryl D. Moore and John S. Poelker, as amended (incorporated by reference to Exhibit 10(b) of Old National's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).\*
  - (c) Severance Agreement, between Old National and James A. Risinger (incorporated by reference to Exhibit 10(c) of Old National's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).\*
  - (d) Old National Bancorp 1999 Equity Incentive Plan (incorporated by reference to Old National's Form S-8 filed on July 20, 2001).\*
  - (e) Construction Manager Contract, dated as of May 30, 2002, between Old National Bancorp and Industrial Contractors, Inc. (incorporated by reference to Old National's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
  - (f) Owner-Contractor Agreement, dated as of October 11, 2002, between Old National Bancorp and Industrial Contractors, Inc. (incorporated by reference to Old National's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
  - (g) 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).\*
- 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.

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\* Management contract or compensatory plan or arrangement



(b) Reports on Form 8-K filed during the quarter ended June 30, 2004.

Old National filed a current report on Form 8-K dated June 9, 2004. The purpose of this Form 8-K was to announce that Old National had begun the 18-month implementation phase of project "Ascend" and the anticipated financial impact of such and to report a summary of the conference call slide presentation used to discuss the implementation of project "Ascend".

Old National filed a current report on Form 8-K dated April 22, 2004. The purpose of this Form 8-K was to report Old National's results for the first quarter of 2004.

## 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/ John S. Poelker

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John S. Poelker  
Executive Vice President and Chief Financial Officer  
Duly Authorized Officer and Principal Financial Officer

Date: August 9, 2004