

OLD NATIONAL BANCORP /IN/

Form 10-K

February 27, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
Annual Report Pursuant to Section 13 or 15(d)  
Of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2007  
Commission File Number 1-15817  
OLD NATIONAL BANCORP**

(Exact name of the Registrant as specified in its charter)

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

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

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

**47708**  
(Zip Code)

**(812) 464-1294**

(Registrant's telephone number, including area code)  
Securities registered pursuant to Section 12(b) of the Act

Title of Each Class  
**Common Stock, No Par Value  
Preferred Stock Purchase Rights**

Name of each exchange on which registered  
**New York Stock Exchange**

**8% Trust Preferred Securities of ONB Capital Trust**

**II**

**(and Registrant's guaranty with respect thereto)**

**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
The aggregate market value of the Registrant's voting common stock held by non-affiliates on June 29, 2007, was \$1,055,201,749 (based on the closing price on that date of \$16.61). In calculating the market value of securities held by non-affiliates of the Registrant, the Registrant has treated as securities held by affiliates as of June 29, 2007, voting stock owned of record by its directors and principal executive officers, and voting stock held by the Registrant's trust department in a fiduciary capacity for benefit of its directors and principal executive officers. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares outstanding of the Registrant's common stock, as of January 31, 2008, was 66,386,000.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 15, 2008, are incorporated by reference into Part III of this Form 10-K.

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**2007 ANNUAL REPORT ON FORM 10-K**  
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**FORWARD-LOOKING STATEMENTS**

The following is a cautionary note about forward-looking statements. In its oral and written communications, Old National Bancorp ( Old National or the Company ) from time to time includes forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements can include statements about estimated cost savings, plans and objectives for future operations, and expectations about performance as well as economic and market conditions and trends. These statements often can be identified by the use of words like expect, may, could, intend, project, estimate, believe or anticipate. Old National may forward-looking statements in filings with the Securities and Exchange Commission, such as this Form 10-K, in other written materials and in oral statements made by senior management to analysts, investors, representatives of the media and others. It is intended that these forward-looking statements speak only as of the date they are made, and Old National undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the forward looking statement is made or to reflect the occurrence of unanticipated events. By their nature, forward-looking statements are based on assumptions and are subject to risks, uncertainties and other factors. Actual results may differ materially from those contained in any forward-looking statement. Uncertainties which could affect Old National s future performance include those that are discussed in Item 1A, Risk Factors. Investors should consider these risks, uncertainties and other factors in addition to those mentioned by Old National in this and its other filings from time to time when considering any forward-looking statement.

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**PART I**

**ITEM 1. BUSINESS**

**GENERAL**

Old National is a financial holding company incorporated in the State of Indiana and maintains its principal executive office in Evansville, Indiana. Old National, through its wholly owned banking subsidiary, provides a wide range of services, including commercial and consumer loan and depository services, investment and brokerage services, lease financing and other traditional banking services. Through its non-bank affiliates, Old National provides services to supplement the banking business including fiduciary and wealth management services, insurance and other financial services. As of December 31, 2007, Old National employed 2,494 full-time equivalent associates.

**COMPANY PROFILE**

Old National Bank, Old National's wholly owned banking subsidiary, was founded in 1834 and is the oldest company in Evansville, Indiana. In 1982, Old National was formed, in 2001 became a financial holding company and is currently the largest financial holding company headquartered in the state of Indiana. Also in 2001, Old National completed the consolidation of 21 bank charters enabling Old National to operate under a common name with consistent product offerings throughout the financial center locations, consolidating back-office operations and allowing Old National to provide more convenient service to clients. Old National provides financial services primarily in Indiana, eastern and southeastern Illinois, and central and western Kentucky.

**OPERATING SEGMENTS**

Old National operates in two segments: community banking and treasury. Substantially all of the Company's revenues are derived from customers located in, and substantially all of its assets are located in, the United States. A description of each segment follows.

**Community Banking Segment**

The community banking segment, operating under the name of Old National Bank, has traditionally been the most significant contributor to Old National. The primary goal of the community banking segment is to provide products and services that address clients' needs and help clients reach their financial goals by providing a broad array of quality services. Old National's financial centers focus on convenience factors such as location, space for private consultations and quick client access to routine transactions.

As of December 31, 2007, Old National Bank operated 115 banking financial centers located primarily in Indiana, Illinois, and Kentucky. The community banking segment primarily consists of lending and depository activities along with merchant cash management, internet banking and other services relating to the general banking business. In addition, the community banking segment includes the Indiana Old National Insurance Company (IONIC) and Central Life Insurance Company, which reinsure credit life insurance. IONIC also provides property and casualty insurance for Old National and reinsures most of the coverage with non-affiliated carriers.

*Lending Activities*

Old National earns interest income on loans as well as fee income from the origination of loans. Lending activities include loans to individuals which primarily consist of home equity lines of credit, residential real estate loans and consumer loans, and loans to commercial clients, which include commercial loans, commercial real estate loans, letters of credit and lease financing. Typically, residential real estate loans are sold servicing released to secondary investors, with gains or losses from the sales being recognized.

*Depository Activities*

Old National strives to serve individuals and commercial clients by providing depository services that fit their needs at competitive rates. Old National pays interest on the interest-bearing deposits and receives service fee revenue on various accounts. Deposit accounts include products such as noninterest-bearing demand, negotiable order of withdrawal (NOW), savings and money market, and time deposits. Debit and ATM cards provide access to the clients' accounts 24 hours a day at any ATM location. Old National also provides 24-hour telephone access and online banking as well as other electronic banking services.





**Table of Contents***Investment and Brokerage Services*

Old National, through a registered third party broker-dealer, provides clients with convenient and professional investment services and a variety of brokerage products. This line of business offers a full array of investment options and investment advice to its clients.

**Treasury Segment**

Treasury manages investments, wholesale funding, interest rate risk, liquidity and leverage for Old National. Treasury also provides capital markets products, including interest rate derivatives, foreign exchange and industrial revenue bond financing for Old National's commercial clients.

**Other**

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

*Wealth Management*

Fiduciary and trust services targeted at high net worth individuals are offered through an affiliate trust company under the business name of Old National Trust Company.

*Insurance Agency Services*

Through its insurance agency subsidiaries, Old National offers full-service insurance brokerage services including commercial property and casualty, surety, loss control services, employee benefits consulting and administration, and personal insurance. These subsidiaries are insurance agencies that offer products that are issued and underwritten by various insurance companies not affiliated with Old National.

Additional information about Old National's business segments is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 23 to the consolidated financial statements.

**MARKET AREA**

Old National Bancorp owns the largest Indiana-based bank and one of the largest independent insurance agencies headquartered in Indiana. Operating from a home base in Evansville, Indiana, the Company has continued to grow its footprint in Indiana and Kentucky with continued expansion in the attractive Louisville, Indianapolis and Lafayette markets. In February 2007, Old National expanded into Northern Indiana by acquiring St. Joseph Capital Corporation, which had banking offices in Mishawaka and Elkhart, Indiana.

The following table reflects the market locations where Old National has a significant share of the deposit market.

**Old National Deposit Market Share and Number of Branch Locations**  
**Deposits as of June 30, 2007**

<b>Market Location</b>	<b>Number of Branches</b>	<b>Deposit Market Share Rank</b>
Evansville, Indiana	15	1st
Greenville, Kentucky	2	1st
Carbondale, Illinois	2	2nd
Terre Haute, Indiana	4	2nd
Muncie, Indiana	5	3rd
Mishawaka, Indiana	1	3rd
Danville, Illinois	2	3rd
Bloomington, Indiana	4	3rd

Source: FDIC

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**ACQUISITION AND DIVESTITURE STRATEGY**

Since the formation of Old National in 1982, Old National has acquired more than 40 financial institutions and financial services companies. Future acquisitions and divestitures will be driven by a disciplined financial process and will be consistent with the existing focus on community banking, client relationships and consistent quality earnings. Targeted geographic markets for acquisitions include mid-size markets within or near Old National's existing franchise with average to above average growth rates.

As with previous acquisitions, the consideration paid by Old National will be in the form of cash, debt or Old National Bancorp stock. The amount and structure of such consideration is based on reasonable growth and cost savings assumptions and a thorough analysis of the impact on both long- and short-term financial results.

**COMPETITION**

The banking industry and related financial service providers operate in a highly competitive market. Old National competes with financial service providers such as local, regional and national banking institutions, savings and loan associations, credit unions, finance companies, investment brokers, and mortgage banking companies. In addition, Old National's non-bank services face competition with asset managers and advisory services, money market and mutual fund companies and insurance agencies.

**SUPERVISION AND REGULATION**

Old National is registered as a bank holding company and has elected to be a financial holding company. It is subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System ( Federal Reserve ) under the Bank Holding Company Act of 1956, as amended ( BHC Act ). The Federal Reserve has issued regulations under the BHC Act requiring a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. It is the policy of the Federal Reserve that, pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity.

The BHC Act requires the prior approval of the Federal Reserve to acquire more than a 5% voting interest of any bank or bank holding company. Additionally, the BHC Act restricts Old National's non-banking activities to those which are determined by the Federal Reserve to be closely related to banking and a proper incident thereto.

On July 30, 2002, the Senate and the House of Representatives of the United States ( Congress ) enacted the Sarbanes-Oxley Act of 2002, a law that addresses, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely disclosures of corporate information. In response, the New York Stock Exchange also adopted new corporate governance rules that are intended to allow shareholders to more easily and efficiently monitor the performance of companies and directors.

Effective August 29, 2002, as directed by Section 302(a) of the Sarbanes-Oxley Act, Old National's principal executive officer and principal financial officer are required to certify that Old National's quarterly and annual reports do not contain any untrue statements of a material fact. The rules also require that these officers certify that they are responsible for establishing, maintaining and regularly evaluating the effectiveness of Old National's internal controls; they have made certain disclosures to auditors and the Audit Committee of the Board of Directors about internal controls; and they have included information in Old National's quarterly and annual reports about their evaluation and whether there have been significant changes in Old National's internal controls or in other factors that could significantly affect internal controls subject to the evaluation. Old National filed the Section 302(a) certifications with the SEC and the Listed Company Manual Section 303A.12(a) CEO certification with the New York Stock Exchange for the prior year. Old National's current year's Sarbanes-Oxley Section 302 certification is filed as an exhibit to this Form 10-K.

On October 26, 2001, the USA Patriot Act of 2001 was signed into law. Enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. on September 11, 2001, the Patriot Act is intended to strengthen U.S. law enforcement's and the intelligence community's ability to work cohesively to combat terrorism on a variety of fronts. The potential impact of the Patriot Act on financial institutions of all kinds is significant and wide-ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and requires various regulations, including: (a) due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons; (b) standards for verifying customer identification at

account opening; (c) rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (d) reports by non-financial trades and businesses filed with the Treasury Department's Financial Crimes Enforcement Network for transactions exceeding \$10,000; and (e) filing of suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws and regulations.

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Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ( FDICIA ), a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become undercapitalized (as defined in FDICIA) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal bank regulatory agency.

Bank holding companies are required to comply with the Federal Reserve's risk-based capital guidelines. The Federal Deposit Insurance Corporation ( FDIC ) and the Office of the Comptroller of the Currency ( OCC ) have adopted risk-based capital ratio guidelines to which depository institutions under their respective supervision are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Old National's affiliate bank met all risk-based capital requirements of the FDIC and OCC as of December 31, 2007. For Old National's regulatory capital ratios and regulatory requirements as of December 31, 2007, see Note 21 to the consolidated financial statements.

Old National's affiliate bank is subject to the provisions of the National Bank Act, is supervised, regulated and examined by the OCC, and is subject to the rules and regulations of the OCC, Federal Reserve and the FDIC.

A substantial portion of Old National's cash revenue is derived from dividends paid to it by its affiliate bank. These dividends are subject to various legal and regulatory restrictions as summarized in Note 21 to the consolidated financial statements.

Both federal and state law extensively regulate various aspects of the banking business, such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Branching by Old National's affiliate bank is subject to the jurisdiction and requires notice to or the prior approval of the OCC.

Old National and its affiliate bank are subject to the Federal Reserve Act, which restricts financial transactions between banks and affiliated companies. The statute limits credit transactions between banks, affiliated companies and its executive officers and its affiliates. The statute prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices, and restricts the types of collateral security permitted in connection with a bank's extension of credit to an affiliate. Additionally, all transactions with an affiliate must be on terms substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with nonaffiliated parties.

FDICIA accomplished a number of sweeping changes in the regulation of depository institutions, including Old National's affiliate bank. FDICIA requires, among other things, federal bank regulatory authorities to take prompt corrective action with respect to banks which do not meet minimum capital requirements. FDICIA further directs that each federal banking agency prescribe standards for depository institutions and depository institution holding companies relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, management compensation, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value of publicly traded shares and such other standards as the agency deems appropriate.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 allows for interstate banking and interstate branching without regard to whether such activity is permissible under state law. Bank holding companies may now acquire banks anywhere in the United States subject to certain state restrictions.

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The Gramm-Leach-Bliley Act ( GLBA ) permits bank holding companies which have elected to become financial holding companies to engage in a substantially broader range of non-banking activities, including securities, investment advice and insurance activities, than is permissible for bank holding companies that have not elected to become financial holding companies. Old National has elected to be a financial holding company. As a result, Old National may underwrite and sell securities and insurance. It may acquire, or be acquired by, brokerage firms and insurance underwriters.

GLBA established new requirements for financial institutions to provide enhanced privacy protections to customers. In June of 2000, the Federal banking agencies jointly adopted a final regulation providing for the implementation of these protections. Financial institutions are required to provide notice to consumers which details its privacy policies and practices, describes under what conditions a financial institution may disclose nonpublic personal information about consumers to nonaffiliated third parties and provides an opt-out method which enables consumers to prevent the financial institution from disclosing customer information to nonaffiliated third parties. Financial institutions were required to be in compliance with the final regulation by July 1, 2001, and Old National was in compliance at such date and continues to be in compliance.

In addition to the matters discussed above, Old National's affiliate bank is subject to additional regulation of its activities, including a variety of consumer protection regulations affecting its lending, deposit and collection activities and regulations affecting secondary mortgage market activities. The earnings of financial institutions are also affected by general economic conditions and prevailing interest rates, both domestic and foreign and by the monetary and fiscal policies of the United States government and its various agencies, particularly the Federal Reserve.

Additional legislative and administrative actions affecting the banking industry may be considered by Congress, state legislatures and various regulatory agencies, including those referred to above. It cannot be predicted with certainty whether such legislative or administrative action will be enacted or the extent to which the banking industry in general or Old National and its affiliate bank in particular would be affected.

### **AVAILABLE INFORMATION**

All reports filed electronically by Old National Bancorp with the Securities and Exchange Commission ( SEC ), including the annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements, other information and amendments to those reports filed (if applicable), are accessible at no cost on Old National's web site at [www.oldnational.com](http://www.oldnational.com). The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, and Old National's filings are accessible on the SEC's web site at [www.sec.gov](http://www.sec.gov). The public may read and copy any materials filed by Old National with the SEC at the SEC's Public Reference Room at 100 F Street, N.E, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

### **ITEM 1A. RISK FACTORS**

Old National's business could be harmed by any of the risks noted below. In analyzing whether to make or to continue an investment in Old National, investors should consider, among other factors, the following:

#### **Risks Related to Old National's Business**

*Old National operates in an extremely competitive market, and Old National's business will suffer if Old National is unable to compete effectively.*

In Old National's market area, the Company encounters significant competition from other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies securities brokerage firms, insurance companies, money market mutual funds and other financial intermediaries. The Company's competitors may have substantially greater resources and lending limits than Old National does and may offer services that Old National does not or cannot provide. Old National's profitability depends upon Old National's continued ability to compete successfully in Old National's market area.

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***We face risks with respect to future expansion.***

We may acquire other financial institutions or parts of those institutions in the future and we may engage in de novo branch expansion. We may also consider and enter into new lines of business or offer new products or services.

Acquisitions and mergers involve a number of expenses and risks, including:

the time and costs associated with identifying potential new markets, as well as acquisition and merger targets;

the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;

the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;

our ability to finance an acquisition and possible dilution to our existing shareholders;

the diversion of our management's attention to the negotiation of a transaction, and the integration of the operations and personnel of the combined businesses;

entry into new markets where we lack experience;

the introduction of new products and services into our business;

the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and

the risk of loss of key employees and customers.

We may incur substantial costs to expand, and we can give no assurance such expansion will result in the levels of profits we seek. There can be no assurance integration efforts for any future mergers or acquisitions will be successful. Also, we may issue equity securities in connection with future acquisitions, which could cause ownership and economic dilution to our current shareholders. There is no assurance that, following any future mergers or acquisitions, our integration efforts will be successful or that, after giving effect to the acquisition, we will achieve profits comparable to or better than our historical experience.

***The loss of key members of Old National's senior management team could adversely affect Old National's business.***

Old National believes that Old National's success depends largely on the efforts and abilities of Old National's senior management. Their experience and industry contacts significantly benefit Old National. The competition for qualified personnel in the financial services industry is intense, and the loss of any of Old National's key personnel or an inability to continue to attract, retain and motivate key personnel could adversely affect Old National's business.

***Old National's loan portfolio includes loans with a higher risk of loss.***

The Bank originates commercial real estate loans, commercial loans, agricultural real estate loans, agricultural loans, consumer loans, and residential real estate loans primarily within Old National's market areas. Commercial real estate, commercial, consumer, and agricultural loans may expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans may not be sold as easily as residential real estate.

These loans also have greater credit risk than residential real estate for the following reasons:

*Commercial Real Estate Loans.* Repayment is dependent upon income being generated in amounts sufficient to cover operating expenses and debt service.

*Commercial Loans.* Repayment is dependent upon the successful operation of the borrower's business.

*Consumer Loans.* Consumer loans (such as personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss.

*Agricultural Loans.* Repayment is dependent upon the successful operation of the business, which is greatly dependent on many things outside the control of either the Bank or the borrowers. These factors include weather, commodity prices, and interest rates.

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Old National makes various assumptions and judgments about the collectibility of Old National's loan portfolio, including the creditworthiness of Old National's borrowers and the value of the real estate and other assets serving as collateral for the repayment of Old National's loans. Despite Old National's underwriting and monitoring practices, Old National's borrowers may not repay their loans according to their terms, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. As a result, Old National may experience significant loan losses that could have a material adverse effect on Old National's operating results. Since Old National must use assumptions regarding individual loans and the economy, Old National's current allowance for loan losses may not be sufficient to cover actual loan losses. Old National's assumptions may not anticipate the severity or duration of the current credit cycle and Old National may need to significantly increase Old National's provision for losses on loans if one or more of Old National's larger loans or credit relationships becomes delinquent or if Old National expands its commercial real estate and commercial lending. In addition, federal and state regulators periodically review Old National's allowance for loan losses and may require Old National to increase the provision for loan losses or recognize loan charge-offs. Material additions to Old National's allowance would materially decrease Old National's net income. There can be no assurance that Old National's monitoring procedures and policies will reduce certain lending risks or that Old National's allowance for loan losses will be adequate to cover actual losses.

***If Old National forecloses on collateral property, Old National may be subject to the increased costs associated with the ownership of real property, resulting in reduced revenues.***

Old National may have to foreclose on collateral property to protect Old National's investment and may thereafter own and operate such property, in which case Old National will be exposed to the risks inherent in the ownership of real estate. The amount that Old National, as a mortgagee, may realize after a default is dependent upon factors outside of Old National's control, including, but not limited to: (i) general or local economic conditions; (ii) neighborhood values; (iii) interest rates; (iv) real estate tax rates; (v) operating expenses of the mortgaged properties; (vi) environmental remediation liabilities; (vii) ability to obtain and maintain adequate occupancy of the properties; (viii) zoning laws; (ix) governmental rules, regulations and fiscal policies; and (x) acts of God. Certain expenditures associated with the ownership of real estate, principally real estate taxes, insurance, and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating real property may exceed the income earned from such property, and Old National may have to advance funds in order to protect Old National's investment, or Old National may be required to dispose of the real property at a loss. The foregoing expenditures and costs could adversely affect Old National's ability to generate revenues, resulting in reduced levels of profitability.

***A breach of information security or compliance breach by one of our agents or vendors could negatively affect Old National's reputation and business.***

Old National relies upon a variety of computing platforms and networks over the internet for the purposes of data processing, communication and information exchange. Despite the safeguards instituted by Old National, such systems are susceptible to a breach of security. In addition, Old National relies on the services of a variety of third-party vendors to meet Old National's data processing and communication needs. If confidential information is compromised, financial losses, costs and/or other damages could occur. Such costs and/or losses could materially affect Old National's earnings.

**Fiduciary Activity Risk Factor*****Old National Is Subject To Claims and Litigation Pertaining To Fiduciary Responsibility***

From time to time, customers make claims and take legal action pertaining to Old National's performance of its fiduciary responsibilities. If such claims and legal actions are not resolved in a manner favorable to Old National they may result in significant financial liability and/or adversely affect the market perception of Old National and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Old National's business, which, in turn, could have a material adverse effect on the Old National's financial condition and results of operations.





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***Changes in economic or political conditions could adversely affect Old National's earnings, as Old National's borrowers' ability to repay loans and the value of the collateral securing Old National's loans decline.***

Old National's success depends, to a certain extent, upon economic or political conditions, local and national, as well as governmental monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond Old National's control may adversely affect its asset quality, deposit levels and loan demand and, therefore, the Old National's earnings. Because Old National has a significant amount of commercial real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Adverse changes in the economy may also have a negative effect on the ability of Old National's borrowers to make timely repayments of their loans, which would have an adverse impact on Old National's earnings. In addition, substantially all of Old National's loans are to individuals and businesses in Old National's market area. Consequently, any economic decline in Old National's primary market areas which include Indiana, Kentucky and Illinois could have an adverse impact on Old National's earnings.

***Changes in interest rates could adversely affect Old National's results of operations and financial condition.***

Old National's earnings depend substantially on Old National's interest rate spread, which is the difference between (i) the rates Old National earns on loans, securities and other earning assets and (ii) the interest rates Old National pays on deposits and other borrowings. These rates are highly sensitive to many factors beyond Old National's control, including general economic conditions and the policies of various governmental and regulatory authorities. If market interest rates rise, Old National will have competitive pressures to increase the rates Old National pays on deposits, which could result in a decrease of Old National's net interest income. If market interest rates decline, Old National could experience fixed rate loan prepayments and higher investment portfolio cash flows, resulting in a lower yield on earnings assets.

***Old National operates in a highly regulated environment, and changes in laws and regulations to which Old National is subject may adversely affect Old National's results of operations.***

Old National operates in a highly regulated environment and is subject to extensive regulation, supervision and examination by the Office of Comptroller of the Currency ( OCC ), the Federal Deposit Insurance Corporation ( FDIC ), the Board of Governors of the Federal Reserve System (the Federal Reserve ) and the State of Indiana. See Business Supervision and Regulation herein. Applicable laws and regulations may change, and such changes may adversely affect Old National's business. Such regulation and supervision of the activities in which an institution may engage is primarily intended for the protection of the depositors and federal deposit insurance funds. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including but not limited to the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Any change in such regulation and oversight, whether in the form of restrictions on activities, regulatory policy, regulations, or legislation, including but not limited to changes in the regulations governing institutions, could have a material impact on Old National and its operations.

***Changes in technology could be costly.***

The banking industry is undergoing technological innovation at a fast pace. To keep up with its competition, Old National needs to stay abreast of innovations and evaluate those technologies that will enable it to compete on a cost-effective basis. The cost of such technology, including personnel, can be high in both absolute and relative terms. There can be no assurance, given the fast pace of change and innovation, that Old National's technology, either purchased or developed internally, will meet or continue to meet the needs of Old National.

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### **Our earnings could be adversely impacted by incidences of fraud and compliance failures that are not within our direct control.**

We are subject to fraud and compliance risk in connection with the origination of loans. Fraud risk includes the intentional misstatement of information in property appraisals or other underwriting documentation provided to us by third parties. Compliance risk is the risk that loans are not originated in compliance with applicable laws and regulations and our standards. There can be no assurance that we can prevent or detect acts of fraud or violation of law or our compliance standards by the third parties that we deal with. Repeated incidences of fraud or compliance failures adversely impact the performance of our loan portfolio.

### **Risks Related to Old National's Stock**

*Old National's charter documents and federal regulations may inhibit a takeover, prevent a transaction that may favor or otherwise limit Old National's growth opportunities, which could cause the market price of Old National's common stock to decline.*

Certain provisions of Old National's charter documents and federal regulations could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of Old National. In addition, Old National must obtain approval from regulatory authorities before acquiring control of any other company.

*The price of Old National's common stock may be volatile, which may result in losses for investors.*

General market price declines or market volatility in the future could adversely affect the price of Old National's common stock. In addition, the following factors may cause the market price for shares of Old National's common stock to fluctuate:

- announcements of developments related to Old National's business;
- fluctuations in Old National's results of operations;
- sales or purchases of substantial amounts of Old National's securities in the marketplace;
- general conditions in Old National's banking niche or the worldwide economy;
- a shortfall or excess in revenues or earnings compared to securities analysts' expectations;
- changes in analysts' recommendations or projections; and

Old National's announcement of new acquisitions or other projects.

*We may not be able to pay dividends in the future in accordance with past practice.*

Old National has traditionally paid a quarterly dividend to stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on Old National's earnings, capital requirements, financial condition and other factors considered relevant by Old National's Board of Directors.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

The executive offices of Old National are located at 1 Main Street, Evansville, Indiana. This building, which houses Old National's general corporate functions, is leased from an unaffiliated third party landlord. The lease term expires December 31, 2031, and provides for the tenant's option to extend the term of the lease for four five-year periods. In addition, during 2007 seventy-three financial centers were sold in a series of sale leaseback transactions to an unaffiliated third party landlord. These properties are leased back from the landlord with lease terms ranging from ten to twenty-four years. See Note 19 to the consolidated financial statements.



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As of December 31, 2007, Old National and its affiliates operated a total of 115 banking centers, loan production or other financial services offices, primarily in the states of Indiana, Illinois and Kentucky. Of these facilities, 16 were owned and 99 were leased from unaffiliated third parties.

**ITEM 3. LEGAL PROCEEDINGS**

Old National has no material pending legal proceedings required to be disclosed under Item 3.

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

No matters were submitted to a vote of security holders of Old National during the fourth quarter of 2007.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Old National's common stock is traded on the New York Stock Exchange ( NYSE ) under the ticker symbol ONB. The following table lists the high and low closing sales prices as reported by the NYSE, share volume and dividend data for 2007 and 2006:

	Price Per Share		Share Volume	Dividend Declared
	High	Low		
<b>2007</b>				
First Quarter	\$ 19.42	\$ 17.39	15,749,200	\$ 0.22
Second Quarter	18.68	16.61	22,403,800	0.22
Third Quarter	17.06	14.03	28,821,500	0.22
Fourth Quarter	17.00	14.09	32,876,900	0.45
<b>2006</b>				
First Quarter	\$ 21.90	\$ 20.18	10,425,500	\$ 0.21
Second Quarter	21.38	18.79	13,102,200	0.21
Third Quarter	19.78	18.38	12,598,300	0.21
Fourth Quarter	19.45	18.27	10,703,400	0.21

There were 30,086 shareholders of record as of December 31, 2007. Old National declared cash dividends of \$0.88 per share for 2007 and a cash dividend of \$0.23 for the first quarter of 2008 during the year ended December 31, 2007. Old National declared cash dividends of \$0.84 per share during the year ended December 31, 2006. Old National's ability to pay cash dividends depends primarily on cash dividends received from Old National Bank. Dividend payments from Old National Bank are subject to various regulatory restrictions. See Note 21 to the consolidated financial statements for additional information.

The following table summarizes the purchases of equity securities made by Old National during the fourth quarter of 2007:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/07 - 10/31/07		\$		4,325,192
11/01/07 - 11/30/07				4,325,192
12/01/07 - 12/31/07	1,547	14.99	1,547	4,323,645

Total	1,547	\$	14.99	1,547	4,323,645
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In December 2005, the Board of Directors approved the repurchase of up to 6.0 million shares of stock over a three-year period beginning January 1, 2006 and ending December 31, 2008. The Company repurchased 0.2 million shares during 2007, and although authorized, under the current market conditions management does not intend to repurchase any additional shares in 2008. Should the current conditions change, there are 4,323,645 shares available for repurchase.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table contains information concerning the 1999 Equity Incentive Plan approved by security holders in 1999 as of December 31, 2007.

**1999 EQUITY COMPENSATION PLAN**

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plan (c)</b>
Equity compensation plans approved by security holders	6,395,266	\$ 20.78	780,107
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>6,395,266</b>	<b>\$ 20.78</b>	<b>780,107</b>

Old National has assumed a number of stock options through various mergers. The number of stock options outstanding related to acquisitions at December 31, 2007 was 12,894 with a weighted-average exercise price of \$15.11.

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The following table compares cumulative five-year total shareholder returns, assuming reinvestment of dividends, for the Company's common stock to cumulative total returns of a broad-based equity market index and two published industry indices.

The comparison of shareholder returns (change in December year end stock price plus reinvested dividends) for each of the periods assumes that \$100 was invested on December 31, 2002, in common stock of each of the Company, the Russell 2000 Index, the NYSE Financial Index and the SNL Bank and Thrift Index with investment weighted on the basis of market capitalization.



**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

(dollars in thousands, except per share data)	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>Five-Year Growth Rate</b>
<b>Results of Operations</b>							
Net interest income (1)	\$ 236,351	\$ 232,243	\$ 240,670	\$ 255,652	\$ 280,414	\$ 304,697	(5.0)%
Fee and service charge income	151,734	147,902	149,540	149,162	140,512	122,972	4.3
Net securities gains (losses)	(3,023)	1,471	901	2,936	23,556	12,444	N/M
Gain on branch divestitures		3,036	14,597			12,473	N/M
Gain on sale leasebacks	6,261						N/M
Gain (loss) on derivatives	166	1,511	(3,436)	10,790	8,874	25,959	(63.6)
Total revenue (1)	391,489	386,163	402,272	418,540	453,356	478,545	(3.9)
Provision for loan losses	4,118	7,000	23,100	22,400	85,000	33,500	(34.2)
Salaries and other operating expenses	277,998	264,690	263,811	309,403	275,801	252,317	2.0
Income taxes (1)	34,483	35,100	36,772	26,424	29,504	65,230	(12.0)
Income from continuing operations	74,890	79,373	78,589	60,313	63,051	127,498	(10.1)
Discontinued operations (after-tax)			(14,825)	2,751	2,471	632	N/M
Net income	\$ 74,890	\$ 79,373	\$ 63,764	\$ 63,064	\$ 65,522	\$ 128,130	(10.2)%
<b>Per Share Data (2)</b>							
Income from continuing operations (diluted)	\$ 1.14	\$ 1.20	\$ 1.15	\$ 0.86	\$ 0.90	\$ 1.80	(8.7)%
Net income (diluted)	1.14	1.20	0.93	0.90	0.93	1.81	(8.8)
Cash dividends (4)	1.11	0.84	0.76	0.72	0.69	0.63	12.0
Book value at year-end	9.86	9.66	9.61	10.16	10.31	10.67	(1.6)
Stock price at year-end	14.96	18.92	21.64	24.63	20.72	20.99	(6.5)
<b>Balance Sheet Data (at December 31)</b>							
Total assets	\$ 7,846,126	\$ 8,149,515	\$ 8,492,022	\$ 8,898,304	\$ 9,363,232	\$ 9,612,556	(4.0)%
Loans (3)	4,699,356	4,716,637	4,937,631	4,987,326	5,586,455	5,769,635	(4.0)
Deposits	5,663,383	6,321,494	6,465,636	6,418,709	6,494,839	6,436,935	(2.5)

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Other borrowings	<b>656,722</b>	747,545	954,925	1,306,953	1,613,942	1,220,171	(11.7)
Shareholders equity	<b>652,881</b>	642,369	649,898	704,092	720,880	750,991	(2.8)

**Performance Ratios**

Return on average assets	<b>0.94%</b>	0.97%	0.74%	0.69%	0.69%	1.38%
Return on average shareholders equity	<b>11.67</b>	12.43	9.31	8.83	8.72	18.43
Dividend payout (4)	<b>97.38</b>	70.02	81.06	79.72	73.82	34.28
Average equity to average assets	<b>8.04</b>	7.81	7.94	7.83	7.86	7.50
Net interest margin (1)	<b>3.28</b>	3.15	3.09	3.08	3.18	3.54
Efficiency ratio (noninterest expense/revenue) (1)	<b>71.01</b>	68.54	65.58	73.92	60.84	52.73
Net charge-offs to average loans (3)	<b>0.44</b>	0.37	0.60	0.61	1.21	0.34
Allowance for loan losses to ending loans (3)	<b>1.20</b>	1.44	1.60	1.72	1.70	1.52

**Other Data**

Number of full-time equivalent employees	<b>2,494</b>	2,568
Number of shareholders	<b>30,086</b>	25,672
Number of shares traded (in thousands) (2)	<b>99,851</b>	46,829

(1) Includes the effect of taxable equivalent adjustments of \$17.2 million for 2007, \$19.5 million for 2006, \$21.5 million for 2005, \$23.9 million for 2004, \$25.1 million for 2003, and \$25.2 million for 2002, using the federal statutory tax rate in effect of 35% for all periods.

(2)

All share and per share data have been adjusted for stock dividends. Diluted data assumes the exercise of stock options and the vesting of restricted stock.

- (3) Includes residential loans held for sale.
- (4) 2007 includes cash dividends of \$.88 paid in 2007 and cash dividends of \$.23 declared for the first quarter of 2008.

N/M = Not meaningful

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion is an analysis of Old National's results of operations for the fiscal years ended December 31, 2007, 2006 and 2005, and financial condition as of December 31, 2007 and 2006. This discussion and analysis should be read in conjunction with Old National's consolidated financial statements and related notes. This discussion contains forward-looking statements concerning Old National's business. Readers are cautioned that, by their nature, forward-looking statements are based on estimates and assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from the expectations of the Company that are expressed or implied by any forward-looking statement. The discussion in Item 1A, Risk Factors, lists some of the factors that could cause the Company's actual results to vary materially from those expressed or implied by any forward-looking statements, and such discussion is incorporated into this discussion by reference.

**GENERAL OVERVIEW**

Old National is a financial holding company incorporated in the State of Indiana and maintains its principal executive offices in Evansville, Indiana. Old National, through its wholly owned banking subsidiary, provides a wide range of services, including commercial and consumer loan and depository services, lease financing and other traditional banking services. Through its non-bank affiliates, Old National provides services to supplement the banking business including fiduciary and wealth management services, investment and brokerage services, investment consulting, insurance and other financial services.

The Company's basic mission is to be THE community bank in the cities and towns it serves. The Company focuses on establishing and maintaining long-term relationships with customers, and is committed to serving the financial needs of the communities in its market area. Old National provides financial services primarily in Indiana, eastern and southeastern Illinois, and central and western Kentucky.

**CORPORATE DEVELOPMENTS IN FISCAL 2007**

During the second half of 2007, the banking industry began to experience a downturn led by significant declines in the values of financial assets backed by sub-prime mortgage loans. It is anticipated that the downturn will continue into 2008, the severity of which will be influenced by overall economic growth and consumer spending. Old National has exposure to the risks associated with the current credit environment as it impacts the Company's investing, lending and related activities. Old National does not believe that the current credit environment will have a material adverse effect on its financial condition, results of operations, or liquidity for the following reasons:

Old National does not originate or purchase sub-prime loans;

the Company has a conservative underwriting policy and aggressive problem loan management;

Old National has taken a cautious stance towards commercial real estate since mid-2006; and

the majority of the Company's asset-backed securities are conforming agency notes.

2007 full year results include an expanded net interest margin and improved credit quality. The Company expanded the net interest margin 13 basis points from December 2006. This increase was primarily the result of improved pricing discipline, declining federal funds rates, and the reduction of higher cost deposits and borrowings. In addition, credit quality remained solid. Criticized and classified loans decreased \$54.6 million, or 20.0%, during 2007. Nonperforming loans decreased approximately \$0.8 million during the year, and were 0.87% of total loans at December 31, 2007, down from 0.88% at December 31, 2006. The allowance for loan losses equaled 138% of nonperforming loans at December 31, 2007 compared to 163% at December 31, 2006. Net charge-offs were 0.44% of average loans in 2007 compared to 0.37% in 2006.

2007 full year net income of \$74.9 million compared to \$79.4 million in 2006. 2007 results included balance sheet restructuring charges of \$5.0 million, net of tax, during the first quarter which should improve the Company's operating platform going forward. In addition, the Company sold 73 financial centers during the year which are leased back under 10 to 24 year leases. Most of the \$111.1 million gain from these transactions will be amortized over the term of the leases in noninterest income, which will partially offset the increase in lease expense. The transaction freed

\$176.3 million of capital, which was used to reduce higher-cost wholesale funding sources; thereby contributing to the increase in net interest margin.

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The balance sheet continued to contract in 2007. Average earning assets and loans declined 2.2 % and 0.2%, respectively. The Company's conservative view on commercial real estate as well as the declining investment portfolio contributed to this decline. The decrease in commercial real estate loans was partially offset by loan growth in the commercial loan category. Average consumer loan balances declined approximately \$32.3 million, or 2.6%. Management attributes the weak consumer demand to uncertainty surrounding the economy. Old National does not expect this trend to change significantly in 2008. Average deposits declined 0.8% during the year as the Company continued to reduce high cost money market accounts and public sector deposits.

**BUSINESS OUTLOOK**

The Company will continue to monitor asset quality closely in 2008 as the economic environment unfolds. If the domestic economy enters a recession in 2008, the Company may experience higher than planned credit costs. If the interest rates continue to decline, the Company may experience increased fixed rate loan prepayments and higher investment portfolio cash flows. Higher than expected prepayments and investment portfolio cash flows in a lower rate environment may reduce the yield on our earning assets. The Company will continue to focus on building its presence in higher growth markets, including Indianapolis, Louisville, Lafayette and northern Indiana. Other challenges include increasing loan and deposit growth in this difficult economic environment, managing through a soft insurance brokerage market and containing expenses.

**RESULTS OF OPERATIONS**

The following table sets forth certain income statement information of Old National for the years ended December 31, 2007, 2006, and 2005:

(dollars in thousands)	2007	2006	2005
<b>Income Statement Summary:</b>			
Net interest income	\$ 219,191	\$ 212,717	\$ 219,152
Provision for loan losses	4,118	7,000	23,100
Noninterest income	155,138	153,920	161,602
Noninterest expense	277,998	264,690	263,811
<b>Other Data:</b>			
Return on average equity	11.67%	12.43%	9.31%
Efficiency ratio	71.01%	68.54%	65.58%
Tier 1 leverage ratio	7.72%	8.01%	7.67%
Net charge-offs to average loans	0.44%	0.37%	0.60%

**Comparison of Fiscal Years 2007 and 2006****Net Interest Income**

Net interest income was the most significant component of Old National's earnings, comprising over 60% of 2007 revenues. Net interest income and net interest margin in the following discussion are presented on a fully taxable equivalent basis, which adjusts tax-exempt 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 an offsetting increase of the same amount is made in the income tax section. Net interest income included taxable equivalent adjustments of \$17.2 million for 2007 and \$19.5 million for 2006.

Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets and funding sources and interest rate fluctuations. Other factors include prepayment risk on mortgage and investment-related assets and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from client deposits generally cost less than wholesale funding sources. Factors, such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on Old National's ability to optimize its mix of assets and funding and its net interest income and margin.



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Taxable equivalent net interest income was \$236.4 million in 2007, a 1.8% increase from the \$232.2 million reported in 2006. The net interest margin was 3.28% for 2007, a 13 basis point increase compared to the 3.15% reported in 2006. Included in net interest income for 2007 is a \$2.6 million recovery of interest on two commercial real estate loans, which increased net interest margin by 4 basis points. Although average earning assets declined by \$159.1 million, the yield on average earning assets increased 24 basis points from 6.39% to 6.63%. The decrease in average earning assets consisted of a \$180.5 million decrease in lower yielding investment securities and an \$8.3 million decrease in loans. These decreases were partially offset by an increase in federal funds sold and money market investments of \$29.6 million. Also contributing to the improved margin was a \$236.0 million or 3.6% decrease in average interest-bearing liabilities, consisting of a \$160.2 million reduction in higher cost borrowings and a \$75.8 million reduction in interest-bearing deposits. The cost of interest-bearing liabilities increased 19 basis points from 3.61% to 3.80%. Noninterest-bearing deposits increased by \$27.8 million.

Fluctuation in interest rates has a notable effect on the volume, mix and yield of average earning assets. The target federal funds rate, the rate that dictates national prime rate and determines many other short-term loan and liability rates, continued to gradually increase during 2006 and was 5.25% at the end of the year. The federal funds rate started to decline in September 2007 and was 4.25% at December 31, 2007.

Significantly affecting average earning assets during 2006 and 2007 was management's decision to reduce the size of the investment portfolio, the acquisition of St. Joseph and the sale of the O'Fallon, Illinois financial center in the first quarter of 2006. In addition, commercial and commercial real estate loans continue to be affected by weak loan demand in Old National's markets, more stringent loan underwriting standards and the Company's desire to lower future potential credit risk by being cautious towards the real estate market. However, the \$116.0 million decline in commercial real estate loans during 2007 was partially offset by a \$64.9 million increase in the commercial loan category. Year-over-year, commercial loans, which have an average yield higher than the investment portfolio, have increased as a percent of interest earning assets. Old National sold \$28.8 million of nonaccrual and substandard commercial and commercial real estate loans in the third quarter of 2006 and \$20.9 million during 2007. During 2006 and 2007, the Company continued its strategy to reduce the size of the investment portfolio, selling \$273.1 million of investment securities during the third quarter of 2006. During the first quarter of 2007, the Company sold \$148.2 million of investment securities.

Affecting average interest-bearing liabilities were decreases in borrowed funding due to the exercise of a call option on \$20 million of high cost brokered certificates of deposit and the maturity of a \$25 million Federal Home Loan Bank advance in the first quarter of 2006, and the maturity of \$50 million of senior unsecured bank notes in the second quarter of 2006. Also affecting margin were decreases in borrowed funding due to the retirement of \$89 million of Federal Home Loan Bank advances and \$74 million of repurchase agreements in the first quarter of 2007. Old National also retired \$23 million of Federal Home Loan Bank advances which were acquired from St. Joseph and a \$15 million Federal Home Loan Bank advance acquired from St. Joseph also matured in the first quarter of 2007. In 2007, Old National called \$98 million of high cost brokered certificates of deposit and \$48.3 million of retail certificates of deposit. Year over year, long-term borrowings and brokered certificates of deposit, which have an average interest rate higher than deposits, have decreased as a percent of interest-bearing liabilities.

The following table presents a three-year average balance sheet and for each major asset and liability category, its related interest income and yield or its expense and rate for the years ended December 31.



**Table of Contents****THREE-YEAR AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS**

	2007			2006			2005		
(tax equivalent basis, dollars in thousands)	Average Balance	Interest & Fees	Yield/Rate	Average Balance	Interest & Fees	Yield/Rate	Average Balance	Interest & Fees	Yield/Rate
<b>Earning Assets</b>									
Federal funds sold and money market investments	\$ 117,202	\$ 6,266	5.35%	\$ 87,594	\$ 4,557	5.20%	\$ 37,102	\$ 1,513	4.08%
Investment securities: (5)									
U.S. Treasury & Government-sponsored agencies (1)	1,749,656	84,383	4.82	1,799,289	81,894	4.55	1,921,042	76,851	4.00
States and political subdivisions (3)	263,698	18,656	7.07	408,469	28,306	6.93	536,928	36,965	6.88
Other securities	268,564	14,091	5.25	254,644	13,101	5.14	273,911	12,450	4.55
Total investment securities	2,281,918	117,130	5.13	2,462,402	123,301	5.01	2,731,881	126,266	4.62
Loans: (2)									
Commercial (3)	1,679,626	125,512	7.47	1,592,286	116,571	7.32	1,578,247	100,900	6.39
Commercial real estate	1,374,703	103,939	7.56	1,466,155	106,569	7.27	1,604,202	101,979	6.36
Residential real estate (4)	556,038	32,568	5.86	527,876	29,219	5.54	584,724	31,964	5.47
Consumer, net of unearned income	1,204,503	93,113	7.73	1,236,823	91,022	7.36	1,247,487	84,135	6.74
Total loans (4)	4,814,870	355,132	7.38	4,823,140	343,381	7.12	5,014,660	318,978	6.36
Total earning assets	7,213,990	\$ 478,528	6.63%	7,373,136	\$ 471,239	6.39%	7,783,643	\$ 446,757	5.74%
Less: Allowance for loan losses	(68,179)			(76,455)			(82,929)		
<b>Non-Earning Assets</b>									
Cash and due from banks	172,963			165,670			183,995		
Other assets	666,211			711,072			741,793		
Total assets	\$ 7,984,985			\$ 8,173,423			\$ 8,626,502		
<b>Interest-Bearing Liabilities</b>									
NOW deposits	\$ 1,490,413	\$ 31,621	2.12%	\$ 1,429,757	\$ 27,397	1.92%	\$ 1,754,908	\$ 25,235	1.44%
Savings deposits	622,398	15,141	2.43	441,305	5,655	1.28	485,323	4,200	0.87
	758,558	23,623	3.11	886,151	29,437	3.32	694,988	18,836	2.71

Money market deposits									
Time deposits	<b>2,426,346</b>	<b>112,728</b>	<b>4.65</b>	2,616,339	110,095	4.21	2,578,535	90,591	3.51
Total interest-bearing deposits	<b>5,297,715</b>	<b>183,113</b>	<b>3.46</b>	5,373,552	172,584	3.21	5,513,754	138,862	2.52
Short-term borrowings	<b>461,780</b>	<b>18,193</b>	<b>3.94</b>	402,240	15,995	3.98	388,161	9,629	2.48
Other borrowings	<b>615,878</b>	<b>40,871</b>	<b>6.64</b>	835,583	50,417	6.03	1,094,612	57,596	5.26
Total interest-bearing liabilities	<b>6,375,373</b>	<b>\$ 242,177</b>	<b>3.80%</b>	6,611,375	\$ 238,996	3.61%	6,996,527	\$ 206,087	2.95%
<b>Noninterest-Bearing Liabilities</b>									
Demand deposits	<b>828,461</b>			800,682			837,579		
Other liabilities	<b>139,303</b>			123,007			107,139		
Shareholders equity	<b>641,848</b>			638,359			685,257		
Total liabilities and shareholders equity	<b>\$ 7,984,985</b>			\$ 8,173,423			\$ 8,626,502		
<b>Interest Margin Recap</b>									
Interest income/average earning assets		<b>\$ 478,528</b>	<b>6.63%</b>		\$ 471,239	6.39%		\$ 446,757	5.74%
Interest expense/average earning assets		<b>242,177</b>	<b>3.35</b>		238,996	3.24		206,087	2.65
Net interest income and margin		<b>\$ 236,351</b>	<b>3.28%</b>		\$ 232,243	3.15%		\$ 240,670	3.09%

(1) Includes U.S. Government-sponsored entities and agency mortgage-backed securities.

(2) Includes principal balances of nonaccrual loans. Interest income relating to nonaccrual loans is included only if received. Includes loan fees of \$4.9 million in 2007, \$5.4 million in 2006 and \$7.5 million in 2005.

- (3) Interest on state and political subdivision investment securities and commercial loans includes the effect of taxable equivalent adjustments of \$6.3 million and \$10.8 million, respectively, in 2007; \$9.6 million and \$9.9 million, respectively, in 2006; and \$12.6 million and \$8.9 million, respectively, in 2005; using the federal statutory tax rate in effect of 35% for all periods.
- (4) Includes residential loans held for sale.
- (5) Yield information does not give effect to changes in fair value that are reflected as a component of shareholders equity.

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The following table shows fluctuations in net interest income attributable to changes in the average balances of assets and liabilities and the yields earned or rates paid for the years ended December 31.

**NET INTEREST INCOME RATE/VOLUME ANALYSIS (tax equivalent basis, dollars in thousands)**

	2007 vs. 2006			2006 vs. 2005		
	Total Change	Attributed to Volume	Attributed to Rate	Total Change	Attributed to Volume	Attributed to Rate
<b>Interest Income</b>						
Federal funds sold and money market investments	\$ 1,709	\$ 1,561	\$ 148	\$ 3,044	\$ 2,342	\$ 702
Investment securities (1)	(6,171)	(9,150)	2,979	(2,965)	(12,974)	10,009
Loans (1)	11,751	(598)	12,349	24,403	(12,908)	37,311
Total interest income	7,289	(8,187)	15,476	24,482	(23,540)	48,022
<b>Interest Expense</b>						
NOW deposits	4,224	1,224	3,000	2,162	(5,452)	7,614
Savings deposits	9,486	3,362	6,124	1,455	(472)	1,927
Money market deposits	(5,814)	(4,106)	(1,708)	10,601	5,765	4,836
Time deposits	2,633	(8,410)	11,043	19,504	1,459	18,045
Short-term borrowings	2,198	2,357	(159)	6,366	454	5,912
Other borrowings	(9,546)	(13,918)	4,372	(7,179)	(14,629)	7,450
Total interest expense	3,181	(19,491)	22,672	32,909	(12,875)	45,784
Net interest income	\$ 4,108	\$ 11,304	\$ (7,196)	\$ (8,427)	\$ (10,665)	\$ 2,238

The variance not solely due to rate or volume is allocated equally between the rate and volume variances.

- (1) Interest on investment securities and loans includes the effect of taxable equivalent adjustments of \$6.3 million and \$10.8 million, respectively, in 2007; \$9.6 million and \$9.9 million, respectively, in

2006; and  
 \$12.6 million  
 and  
 \$8.9 million,  
 respectively, in  
 2005; using the  
 federal statutory  
 rate in effect of  
 35% for all  
 periods.

**Provision for Loan Losses**

The provision for loan losses was \$4.1 million in 2007, a \$2.9 million reduction from the \$7.0 million recorded in 2006. The lower provision in 2007 is attributable to the decrease in nonaccrual, criticized and classified loans during 2007 and enhanced credit administration and underwriting functions that began in 2004. For additional information about non-performing loans, charge-offs and additional items impacting the provision, refer to the Risk Management Credit Risk section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations .

**Noninterest Income**

Old National generates revenues in the form of noninterest income through client fees and sales commissions from its core banking franchise and other related businesses, such as wealth management, investment consulting, investment products and insurance. This source of revenue has remained relatively constant as a percentage of total revenue at 39.6% in 2007 compared to 39.9% in 2006.

Noninterest income for 2007 was \$155.1 million, an increase of \$1.2 million, or 0.8% compared to \$153.9 million reported for 2006. This increase is primarily the result of a \$6.3 million gain on the sale and leaseback of real estate combined with a \$2.5 million increase in service charges on deposits accounts, a \$2.4 million increase in ATM and debit card fees and a \$2.0 million increase in investment product fees. Partially offsetting these increases were a \$2.5 million decrease in insurance premiums and commissions and a \$1.3 million decrease in gains on derivatives. In 2007, Old National realized \$3.0 million of losses on sales of securities in comparison to \$1.5 million of gains for 2006. In addition, Old National recorded a \$3.0 million gain from the sale of the O Fallon, Illinois financial center in the first quarter of 2006. There was no corresponding sale in 2007.

Service charges on deposit accounts were \$44.8 million during 2007 compared to \$42.3 million during 2006. The increase was primarily the result of an increase in the service charge fee rate on deposit accounts.

Insurance premiums and commissions decreased to \$39.0 million in 2007 compared to \$41.5 million during 2006. The decrease was primarily a result of decreases in commissions on property and casualty insurance and contingency income, which were partially offset by an increase in fees on employee benefit plans.

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Investment product fees increased \$2.0 million primarily from increased sales of investment products.

Old National entered into a sale and leaseback transaction of its corporate offices in December of 2006. In addition, seventy-three financial centers were sold in a series of sale leaseback transactions during 2007. The majority of the \$111.1 million gain associated with these transactions will be deferred and amortized over the term of the leases. In 2007, the total gain associated with the sale leaseback transactions, included in other income, was \$6.3 million. The \$6.3 million is comprised of \$1.6 million of amortization of deferred gains and \$4.7 million of current gains related to the 2007 transactions. Further discussion of the sale leaseback transactions is included in Note 19 to the consolidated financial statements.

The following table presents changes in the components of noninterest income for the years ended December 31.

**NONINTEREST INCOME**

(dollars in thousands)	2007	2006	2005	% Change From Prior Year	
				2007	2006
Wealth management fees	\$ 18,710	\$ 19,519	\$ 20,269	(4.1)%	(3.7)%
Service charges on deposit accounts	44,751	42,291	47,154	5.8	(10.3)
ATM fees	14,476	12,077	11,145	19.9	8.4
Mortgage banking revenue	4,439	4,143	4,918	7.2	(15.8)
Insurance premiums and commissions	38,996	41,490	35,242	(6.0)	17.7
Investment product fees	10,727	8,699	8,975	23.3	(3.1)
Company-owned life insurance	9,817	8,966	8,147	9.5	10.1
Other income	9,818	10,717	13,690	(8.4)	(21.7)
Total fee and service charge income	151,734	147,902	149,540	2.6	(1.1)
Net securities gains (losses)	(3,023)	1,471	901	N/M	63.3
Gain on branch divestitures		3,036	14,597	N/M	(79.2)
Gain (loss) on derivatives	166	1,511	(3,436)	(89.0)	N/M
Gain on sale leasebacks	6,261			N/M	N/M
Total noninterest income	\$ 155,138	\$ 153,920	\$ 161,602	0.8%	(4.8)%
Noninterest income to total revenue (1)	39.6%	39.9%	40.2%		

(1) Total revenue includes the effect of a taxable equivalent adjustment of \$17.2 million in 2007, \$19.5 million in 2006 and \$21.5 million in

2005.

N/M = Not  
meaningful

**Noninterest Expense**

Noninterest expense for 2007 totaled \$278.0 million, an increase of \$13.3 million, or 5.0% from the \$264.7 million recorded in 2006. The \$6.1 million increase in salaries and employee benefits combined with a \$6.5 million increase in occupancy expense were the primary reasons for the increase in noninterest expense.

Salaries and benefits, the largest component of noninterest expense, totaled \$163.7 million in 2007, compared to \$157.6 million in 2006, an increase of \$6.1 million, or 3.9%. Included in salaries and benefits expense for 2007 is approximately \$3.5 million of expense associated with the acquisition of St. Joseph Capital Corporation. Also contributing to the increase is higher performance-based compensation expense in 2007.

Occupancy expense increased \$6.5 million in 2007, primarily as a result of a \$9.6 million increase in rent expense. The increase in rent expense is related to the sale leaseback transactions that occurred in December of 2006 and 2007. Partially offsetting the increase in rent expense was a \$3.8 million decrease in depreciation expense, also related to the sale leaseback transactions. Further discussion of the sale leaseback transactions is included in Note 19 to the consolidated financial statements.

During 2007, Old National recorded a \$1.5 million loss on the extinguishment of debt compared to a loss of \$0.1 million in 2006. The \$1.4 million increase was primarily related to the early retirement of Federal Home Loan Bank advances and repurchase agreements in the first quarter of 2007.

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Donations totaled \$1.7 million in 2007, an increase of \$1.4 million compared to \$0.3 million for 2006. The increase was primarily attributable to the \$1.4 million contribution in 2007 to the Old National Bank Foundation. The remaining components of noninterest expense totaled \$84.6 million for 2007 compared to \$86.7 million for 2006. The \$2.1 million decrease is primarily attributable to a \$1.5 million reduction in the provision expense for unfunded commitments during 2007. In 2006, Old National recorded a \$0.4 million provision expense.

The following table presents changes in the components of noninterest expense for the years ended December 31.

**NONINTEREST EXPENSE**

(dollars in thousands)	2007	2006	2005	% Change From Prior Year	
				2007	2006
Salaries and employee benefits	\$ 163,722	\$ 157,622	\$ 147,782	3.9%	6.7%
Occupancy	26,466	19,927	20,352	32.8	(2.1)
Equipment	11,109	12,728	14,415	(12.7)	(11.7)
Marketing	8,407	10,400	8,323	(19.2)	25.0
Data processing	19,212	17,963	21,209	7.0	(15.3)
Communications	9,334	9,156	9,863	1.9	(7.2)
Professional fees	7,705	7,602	9,297	1.4	(18.2)
Loan expense	5,965	5,696	5,250	4.7	8.5
Supplies	3,495	3,413	3,812	2.4	(10.5)
Loss on extinguishment of debt	1,541	129	1,704	N/M	(92.4)
Impairment of long-lived assets	1,163	1,252		(7.1)	N/M
Donations	1,718	319	5,648	N/M	(94.4)
Other expense	18,161	18,483	16,156	(1.7)	14.4
Total noninterest expense	\$ 277,998	\$ 264,690	\$ 263,811	5.0%	0.3%

N/M = Not meaningful

**Provision for Income Taxes**

Old National records a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to Old National's financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. Also impacting the effective tax rate in 2007 was the adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. The provision for income taxes on continuing operations, as a percent of pre-tax income, was 18.8% in 2007 compared to 16.4% in 2006. Contributing to the increase in the effective tax rate in 2007 was a lower percentage of tax-exempt income to income before income taxes. Partially offsetting the increase was a \$1.8 million settlement which reduced the effective tax rate by 2.0%. See Note 12 to the consolidated financial statements for additional details on Old National's income tax provision.

**Comparison of Fiscal Years 2006 and 2005**

In 2006, Old National generated net income of \$79.4 million and diluted net income per share of \$1.20 compared to \$63.8 million and \$0.93, respectively in 2005. The 2006 earnings included a \$3.0 million gain from the sale of the O Fallon financial center and a decrease of \$16.1 million in the provision for loan losses. The 2005 earnings included a \$14.6 million gain from the sale of the Clarksville, Tennessee branches and a \$14.8 million loss from discontinued operations related to the sale of J.W. Terrill Insurance Agency and Fund Evaluation Group. Other factors which positively affected 2006 net income included a \$6.2 million increase in insurance premiums and commissions compared to 2005 and a \$4.9 million increase in gains on derivative instruments. Offsetting these increases to net income in 2006 was a \$9.8 million increase in salaries and benefits expense compared to 2005.



Taxable equivalent net interest income was \$232.2 million in 2006, a 3.5% decrease from the \$240.7 million reported in 2005. The net interest margin was 3.15% for 2006, compared to 3.09% reported for 2005. The decline in net interest income was primarily a result of average earning assets declining more than average interest-bearing liabilities during 2006. Average earning assets decreased by \$410.5 million in 2006 while average interest-bearing liabilities decreased by \$385.2 million in 2006.

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The provision for loan losses was \$7.0 million in 2006, a significant reduction from the \$23.1 million for 2005. The lower provision in 2006 was attributable to a decrease in net charge-offs combined with a decrease in nonaccrual loans and enhanced credit administration and underwriting functions.

Noninterest income for 2006 was \$153.9 million, a decrease of \$7.7 million, or 4.8% from the \$161.6 million reported for 2005. Included in 2005 was a \$14.6 million gain related to a branch divestiture. In addition, service charges on deposit accounts were \$4.9 million lower in 2006 than 2005. Partially offsetting these declines was a \$6.2 million increase in insurance premiums and commissions and a \$4.9 million increase in gains on derivatives instruments. Noninterest expense for 2006 totaled \$264.7 million, an increase of \$0.9 million, or 0.3% from the \$263.8 million recorded in 2005. This increase was primarily related to a \$9.8 million increase in salaries and benefits expense and a \$2.3 million increase in other expenses. Partially offsetting these increases in expense were decreases of \$5.3 million in donations expense, \$3.2 million in data processing expense, \$1.7 million in equipment expense and \$1.7 million in professional fees. Favorably impacting other expense in 2005 was a \$5.6 million reduction in the reserve for unfunded commitments.

The provision for income taxes on continuing operations was relatively flat year over year. In 2006, the provision was \$15.6 million compared to \$15.3 million in 2005. Old National's effective tax rate was 16.4% in 2006 and 16.3% in 2005. The slight increase in the effective tax rate in 2006 resulted from a lower percentage of tax-exempt income to income before income taxes.

Old National operates in two operating segments: community banking and treasury. The community banking segment profit was \$79.5 million in 2006 compared to \$81.3 million in 2005. The decrease was primarily as a result of the decrease in earning assets and higher deposit costs in the community banking segment during 2006. The 2006 treasury segment profit increased \$7.6 million from 2005, primarily as a result of fluctuations in the fair market value of derivative instruments. The other segment, which aggregates wealth management, investment consulting, insurance, brokerage and investment and annuity sales, included a \$14.8 million loss from discontinued operations related to the sales of J.W. Terrill Insurance Agency and the Fund Evaluation Group in 2005.

**BUSINESS LINE RESULTS**

Old National is managed in two primary business segments. The following table summarizes Old National's business line results for the years ended December 31.

**BUSINESS LINE RESULTS**

(dollars in thousands)	<b>2007</b>	<b>2006</b>	<b>2005</b>
Community banking	\$ <b>78,924</b>	\$ 74,256	\$ 81,316
Treasury	<b>(3,937)</b>	2,511	(6,682)
Other	<b>(97)</b>	2,606	(10,870)
Consolidated net income	\$ <b>74,890</b>	\$ 79,373	\$ 63,764

The 2007 community banking segment profit increased \$4.7 million, primarily as a result of increased service charges, ATM, and debit card fees. The 2006 community banking segment profit decreased \$7.1 million from 2005, primarily as a result of the decrease in earning assets and higher deposit costs in the community banking segment during 2006. The 2007 treasury segment profit decreased \$6.4 million from 2006 primarily as a result of the \$4.5 million increase in net securities losses. Contributing to the increase in net securities losses was Old National's balance sheet restructuring initiative in the first quarter of 2007. The 2006 treasury segment profit increased \$9.2 million from 2005 primarily as a result of fluctuations in the fair market value of derivative instruments.

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The 2007 other segment profit decreased approximately \$2.7 million primarily as a result of intercompany allocations and lower insurance contingency revenue. The 2005 other segment profit includes a loss from discontinued operations of \$14.8 million related to the sales of J.W. Terrill Insurance Agency ( Terrill ) in St. Louis, Missouri, and the Fund Evaluation Group ( FEG ) in Cincinnati, Ohio.

**FINANCIAL CONDITION****Overview**

Old National's total assets at December 31, 2007, were \$7.846 billion, a 3.7% decrease from \$8.150 billion at December 31, 2006. The planned reduction of the investment portfolio, the reduction in federal funds sold, the sale of our corporate office buildings in December 2006 and the sale of seventy-three bank branch properties and one office building in 2007 have lowered our total assets, reducing the Company's reliance on long-term borrowings and brokered certificates of deposit. Partially offsetting the reduction in assets was the acquisition of St. Joseph. Earning assets, comprised of investment securities including money market investments, loans, and loans held for sale, were \$7.016 billion at December 31, 2007, a decrease of 4.9% from \$7.380 billion at December 31, 2006. Year over year, long-term borrowings and brokered certificates of deposit, which have average interest rates higher than most types of deposits, have decreased as a percent of interest-bearing liabilities.

**Investment Securities**

Old National classifies investment securities primarily as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in the Company's funding requirements. However, Old National also has some 15- and 20-year fixed-rate mortgage pass-through securities in its held-to-maturity investment portfolio. At December 31, 2007, Old National does not believe any individual unrealized loss on available-for-sale securities represents other-than-temporary impairment. The unrealized losses are primarily attributable to changes in interest rates and recent market conditions. Old National has both the intent and ability to hold the securities for a time necessary to recover the amortized cost.

At December 31, 2007, the investment securities portfolio was \$2.309 billion compared to \$2.376 billion at December 31, 2006, a decrease of 2.8%. Investment securities represented 32.9% of earning assets at December 31, 2007, compared to 32.2% at December 31, 2006. The Company continued to decrease the size of the investment portfolio during 2006 and 2007, and used the cash flows generated by the declining investment portfolio to purchase higher-yielding securities and to reduce long-term borrowings and brokered certificates of deposit. Stronger commercial loan demand in the future could result in increased investments in loans and a continued reduction in the investment securities portfolio.

Investment securities available-for-sale portfolio had net unrealized losses of \$6.7 million at December 31, 2007, compared to net unrealized losses of \$27.6 million at December 31, 2006. These unrealized losses are primarily the result of changes in interest rates and recent market events. In addition, Old National had realized pre-tax net losses on the sale of securities from the available-for-sale portfolio of \$3.0 million during 2007 and net gains of \$1.5 million during 2006.

The investment portfolio had an effective duration of 2.96 years at December 31, 2007, compared to 2.90 years at December 31, 2006. The weighted average yields on available-for-sale investment securities were 5.24% in 2007 and 5.01% in 2006. The average yields on the held-to-maturity portfolio were 4.57% in 2007 and 4.50% in 2006.

At December 31, 2007, Old National had a concentration of investment securities issued by the state of Indiana and its political subdivisions with the aggregate market values of \$94.1 million, which represented 14.4% of shareholders equity. At December 31, 2006, the aggregate market value of investment securities issued by the state of Indiana and its political subdivisions was \$79.7 million, which represented 12.4% of shareholders equity. There were no other concentrations of investment securities issued by an individual state and its political subdivisions that were greater than 10% of shareholders equity.

**Table of Contents****Loan Portfolio**

Old National lends primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. Old National's policy is to concentrate its lending activity in the geographic market areas it serves, primarily Indiana, Illinois and Kentucky. The following table presents the composition of the loan portfolio at December 31.

**LOAN PORTFOLIO AT YEAR-END**

(dollars in thousands)	2007	2006	2005	2004	2003	Four-Year Growth Rate
Commercial	\$ 1,694,736	\$ 1,629,885	\$ 1,553,742	\$ 1,550,640	\$ 1,618,095	1.2%
Commercial real estate	1,270,408	1,386,367	1,534,385	1,653,122	1,849,275	(9.0)
Consumer credit	1,187,764	1,198,855	1,261,797	1,205,657	1,163,325	0.5
Total loans excluding residential real estate	4,152,908	4,215,107	4,349,924	4,409,419	4,630,695	(2.7)
Residential real estate	533,448	484,896	543,903	555,423	939,422	(13.2)
Total loans	4,686,356	4,700,003	4,893,827	4,964,842	5,570,117	(4.2)%
Less: Allowance for loan losses	56,463	67,790	78,847	85,749	95,235	
Net loans	\$ 4,629,893	\$ 4,632,213	\$ 4,814,980	\$ 4,879,093	\$ 5,474,882	

*Commercial and Commercial Real Estate Loans*

At December 31, 2007, commercial loans increased \$64.9 million while commercial real estate loans decreased \$116.0 million, respectively, from December 31, 2006. Included in total commercial and commercial real estate loans at December 31, 2007, are \$106.9 million and \$114.8 million, respectively, of loans acquired from St. Joseph. During 2007, the Company sold \$8.3 million of commercial loans and \$12.6 million of commercial real estate loans. A write-down of \$5.3 million was recorded against the allowance for loan losses related to these sales. In the first quarter of 2006, the O Fallon, Illinois financial center was sold, which included \$14.3 million of commercial loans and \$11.0 million of commercial real estate loans. Weak loan demand in Old National's markets continues to affect loan growth. Old National also has continued to tighten its underwriting standards, which has slowed potential loan growth. Old National continues to be cautious towards the real estate market in an effort to lower future potential credit risk. The following table presents the maturity distribution and rate sensitivity of commercial loans and an analysis of these loans that have predetermined and floating interest rates. A significant percentage of commercial loans are due within one year, reflecting the short-term nature of a large portion of these loans.

**DISTRIBUTION OF COMMERCIAL LOAN MATURITIES AT DECEMBER 31, 2007**

(dollars in thousands)	Within 1 Year	1 - 5 Years	Beyond 5 Years	Total
Interest rates:				
Predetermined	\$ 197,308	\$ 336,168	\$ 222,992	\$ 756,468
Floating	654,804	206,689	76,775	938,268
Total	\$ 852,112	\$ 542,857	\$ 299,767	\$ 1,694,736

*Consumer Loans*

Consumer loans, including automobile loans, personal and home equity loans and lines of credit, and student loans, decreased \$11.1 million or 0.9% at December 31, 2007, compared to December 31, 2006. Included in consumer loans at December 31, 2007 is \$23.1 million of consumer loans associated with the St. Joseph acquisition.

*Residential Real Estate Loans*

Residential real estate loans, primarily 1-4 family properties, have decreased in significance to the loan portfolio over the past five years due to the Company's decision to originate and sell the majority of its residential real estate loans into the secondary market, primarily to private investors. Old National sells the majority of residential real estate loans originated as a strategy to better manage interest rate risk and liquidity. Old National sells almost all residential real estate loans servicing released without recourse.

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Residential real estate loans were \$533.4 million at December 31, 2007, an increase of \$48.6 million or 10.0% from December 31, 2006. The acquisition of St. Joseph was the primary reason for the increase in residential real estate loans.

*Allowance for Loan Losses*

To provide for the risk of loss inherent in extending credit, Old National maintains an allowance for loan losses. The determination of the allowance is based upon the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events and regulatory guidance. Additional information about Old National's Allowance for Loan Losses is included in the Risk Management Credit Risk section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 to the consolidated financial statements.

At December 31, 2007, the allowance for loan losses was \$56.5 million, a decrease of \$11.3 million compared to \$67.8 million at December 31, 2006. As a percentage of total loans, the allowance decreased to 1.20% at December 31, 2007, from 1.44% at December 31, 2006. During 2007, the provision for loan losses amounted to \$4.1 million, a decrease of \$2.9 million from the amount recorded in 2006. The lower provision in 2007 is attributable to the decrease in nonaccrual, criticized and classified loans during 2007. Also considered is the Company's migration loss rates which are declining as credits issued under the Company's enhanced credit administration and underwriting functions, begun in 2004, become more representative of the existing portfolio.

For commercial and commercial real estate loans, the reserve decreased by \$9.8 million at December 31, 2007, compared to December 31, 2006. The reserve as a percentage of that portfolio decreased to 1.55% at December 31, 2007, from 1.85% at December 31, 2006. Nonaccrual loans decreased \$0.7 million since December 31, 2006.

Criticized and classified loans decreased \$54.6 million, or 20.0%, from December 31, 2006.

The reserve for residential real estate loans as a percentage of that portfolio decreased to 0.30% at December 31, 2007, from 0.35% at December 31, 2006. The reserve for consumer loans decreased to 0.75% at December 31, 2007, from 0.86% at December 31, 2006. The lower reserve percentages for these portfolios are a result of improved credit quality in these portfolios during 2007.

*Allowance for Losses on Unfunded Commitments*

Old National maintains an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. This allowance is reported as a liability on the balance sheet within accrued expenses and other liabilities, while the corresponding provision for these loan losses is recorded as a component of other expense. As of December 31, 2007 and 2006, the allowance for losses on unfunded commitments was \$3.7 million and \$4.8 million, respectively.

**Residential Loans Held for Sale**

Residential loans held for sale were \$13.0 million at December 31, 2007, compared to \$16.6 million at December 31, 2006. Residential loans held for sale are loans that are closed, but not yet purchased by investors. The amount of residential loans held for sale on the balance sheet varies depending on the amount of originations and timing of loan sales to the secondary market. The decrease in residential loans held for sale from December 31, 2006, is primarily attributable to increased efficiencies in processing loan sales and the timing of loan sales to the secondary market.

**Premises and Equipment**

Premises and equipment, a large component of the Company's non-earning assets, totaled \$48.7 million at December 31, 2007, a decrease of \$74.2 million, or 60.4%, since December 31, 2006. The primary reason for this decrease was the sale and leaseback of seventy-three of Old National's branch facilities and an office building in the last half of 2007. The assets involved in the sale and leaseback transactions in 2007 had a carrying value of approximately \$69.0 million. During 2006, premises and equipment decreased \$77.0 million. This decrease is primarily attributable to the sale and leaseback of Old National's three main buildings in downtown Evansville, Indiana in the fourth quarter of 2006. The assets involved in the sale and leaseback in 2006 had a carrying value of approximately \$69.9 million.



**Table of Contents****Goodwill and Other Intangible Assets**

Goodwill and other intangible assets at December 31, 2007, totaled \$191.0 million, an increase of \$56.8 million compared to \$134.2 million at December 31, 2006. The increase is primarily the result of \$60.3 million in goodwill and intangible assets related to the February 1, 2007 acquisition of St. Joseph Capital Corporation.

**Assets Held for Sale**

Assets held for sale were \$4.0 million at December 31, 2007. Included in assets held for sale are nine financial centers that are pending completion of a sale leaseback transaction similar to those completed in 2007. Old National plans to continue occupying these properties under long-term lease agreements.

**Funding**

Total average funding, comprised of deposits and wholesale borrowings, was \$7.204 billion at December 31, 2007, a decrease of 2.8% from \$7.412 billion at December 31, 2006. Average deposits decreased 0.8% in 2007, compared to a decrease of 2.8% in 2006. Total deposits were \$5.663 billion, including \$3.602 billion in transaction accounts and \$2.061 billion in time deposits at December 31, 2007. Included in total deposits is \$287.9 million associated with the St. Joseph acquisition. Total deposits decreased 10.4% or \$658.1 million compared to December 31, 2006. Money market deposits decreased 39.2% or \$363.2 million and time deposits decreased 21.7% or \$570.3 million compared to December 31, 2006. Savings deposits increased 76.8% or \$336.4 million compared to December 31, 2006. Year over year, Old National has experienced a shift into lower cost deposit types.

Old National uses wholesale funding to augment deposit funding and to help maintain its desired interest rate risk position. Wholesale borrowings as a percentage of total funding at December 31, 2007 was 18.6% at December 31, 2007, compared to 14.4% at December 31, 2006. The primary cause for the increase in wholesale funding in 2007 is an increase in short-term borrowings. Short-term borrowings have increased \$325.3 million since December 31, 2006 while long-term borrowings have decreased \$90.8 million compared to December 31, 2006. The primary causes for the reduction in long-term borrowings were the retirement of \$89 million of Federal Home Loan Bank advances and \$74 million of repurchase agreements in the first quarter of 2007. Old National also retired \$23 million of Federal Home Loan Bank advances which were acquired from St. Joseph and a \$15 million Federal Home Loan Bank advance acquired from St. Joseph matured in the first quarter of 2007. The lower level of earning assets, primarily due to weak loan demand in Old National's markets, and a planned reduction of the investment portfolio during 2007 and 2006, reduced the Company's reliance on wholesale funding. See Notes 10 and 11 to the consolidated financial statements for additional details on Old National's financing activities.

The following table presents changes in the average balances of all funding sources for the years ended December 31.

**FUNDING SOURCES AVERAGE BALANCES**

(dollars in thousands)	2007	2006	2005	% Change From Prior Year	
				2007	2006
Demand deposits	\$ 828,461	\$ 800,682	\$ 837,579	3.5%	(4.4)%
NOW deposits	1,490,413	1,429,757	1,754,908	4.2	(18.5)
Savings deposits	622,398	441,305	485,323	41.0	(9.1)
Money market deposits	758,558	886,151	694,988	(14.4)	27.5
Time deposits	2,426,346	2,616,339	2,578,535	(7.3)	1.5
Total deposits	6,126,176	6,174,234	6,351,333	(0.8)	(2.8)
Short-term borrowings	461,780	402,240	388,161	14.8	3.6
Other borrowings	615,878	835,583	1,094,612	(26.3)	(23.7)
Total funding sources	\$ 7,203,834	\$ 7,412,057	\$ 7,834,106	(2.8)%	(5.4)%





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The following table presents a maturity distribution for certificates of deposit with denominations of \$100,000 or more at December 31.

**CERTIFICATES OF DEPOSIT, \$100,000 AND OVER**

(dollars in thousands)	Year-End Balance	Maturity Distribution			
		1-90 Days	91-180 Days	181-365 Days	Beyond 1 Year
2007	\$ 562,077	\$ 218,620	\$ 91,728	\$ 149,238	\$ 102,491
2006	932,569	303,074	195,222	228,209	206,064
2005	840,861	253,417	103,819	204,251	279,374

Other liabilities have increased \$109.7 million, or 87.6%, since December 31, 2006 primarily as a result of the deferred gains arising from the sale leaseback transactions entered into by Old National during 2007.

**Capital**

Shareholders' equity totaled \$652.9 million or 8.3% of total assets at December 31, 2007, and \$642.4 million or 7.9% of total assets at December 31, 2006. The primary reason for the increase in shareholders' equity at December 31, 2007, compared to December 31, 2006, was the increase in other comprehensive income resulting from the decrease in unrealized losses on securities available for sale.

During 2007, Old National paid cash dividends of \$0.88 per share, and declared a cash dividend of \$0.23 per share for the first quarter of 2008, which decreased equity by \$72.9 million. This compares to cash dividends of \$0.84 per share in 2006, which decreased equity by \$55.6 million. Old National purchased shares of its stock in the open market under an ongoing repurchase program, reducing shareholders' equity by \$4.1 million in 2007 and \$29.4 million in 2006.

Shares issued for stock options, restricted stock and stock compensation plans increased shareholders' equity by \$1.8 million in 2007, compared to \$1.5 million in 2006. In addition, \$0.5 million of restricted stock and options were issued in connection with the acquisition of St. Joseph in 2007. The adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, resulted in a \$3.4 million reduction in equity during 2007. The adoption of EITF 06-5, *Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance)*, also affected equity in 2007, resulting in a \$0.1 million reduction.

**Capital Adequacy**

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. For additional information on capital adequacy see Note 21 to the consolidated financial statements.

**RISK MANAGEMENT****Overview**

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

**Credit Risk**

Credit risk represents the risk of loss arising from an obligor's inability or failure to meet contractual payment or performance terms. Old National's primary credit risks result from the Company's investment and lending activities.

**Investment Activities**

Within Old National's securities portfolio, the non-agency collateralized mortgage obligations represent the greatest exposure to the current instability in the residential real estate and credit markets. At December 31, 2007, Old National had non-agency collateralized mortgage obligations of \$262.7 million or approximately 12% of the available-for-sale securities portfolio.

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The Company expects conditions in the overall residential real estate and credit markets to remain uncertain for the foreseeable future. Deterioration in the performance of the underlying loan collateral could result in deterioration in the performance of our asset-backed securities.

At December 31, 2007, Old National does not believe that any individual unrealized loss represents an other-than-temporary impairment. The majority of the unrealized losses on mortgage-backed securities are attributable to both changes in interest rates and market aberrations.

The Company also carries a higher exposure to loss in its pooled trust preferred securities due to illiquidity in that market and performance of underlying collateral. At December 31, 2007, Old National had pooled trust preferred securities of approximately \$49 million, or 2% of the available-for-sale securities portfolio.

The remainder of Old National's mortgage-backed securities are backed by U.S. government-sponsored or federal agencies. Municipal bonds, corporate bonds and other debt securities are evaluated by reviewing the credit-worthiness of the issuer and general market conditions. The Company has the intent and ability to hold all securities in an unrealized loss position at December 31, 2007 until the market value recovers or the securities mature.

**Lending Activities**

Community-based lending personnel, along with region-based independent underwriting and analytic support staff, extend credit under guidelines established and administered by Old National's Risk and Credit Policy Committee. This committee, which meets quarterly, is made up of outside directors. The committee monitors credit quality through its review of information such as delinquencies, credit exposures, peer comparisons, problem loans and charge-offs. In addition, the committee reviews and approves recommended loan policy changes to assure it remains appropriate for the current lending environment.

Old National lends primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. As measured by Old National at December 31, 2007, the Company had no concentration of loans in any single industry exceeding 10% of its portfolio and has no exposure to foreign borrowers or lesser-developed countries. Old National's policy is to concentrate its lending activity in the geographic market areas it serves, primarily Indiana, Illinois and Kentucky. Old National continues to be affected by weakness in the economy of its principal markets, particularly in its home state of Indiana. Management expects that trends in under-performing, criticized and classified loans will be influenced by the degree to which the economy strengthens or weakens.

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Summary of under-performing, criticized and classified loans:

**ASSET QUALITY**

(dollars in thousands)	2007	2006	2005	2004	2003
Nonaccrual loans					
Commercial and commercial real estate	\$ 30,303	\$ 32,307	\$ 39,828	\$ 43,677	\$ 91,589
Residential real estate	5,996	5,686	5,818	9,281	10,876
Consumer	4,517	3,525	9,943	1,932	2,162
Total nonaccrual loans	40,816	41,518	55,589	54,890	104,627
Renegotiated loans		52			
Past due loans still accruing (90 days or more):					
Commercial and commercial real estate	738	1,227	183	870	4,127
Residential real estate		127	479	270	67
Consumer	773	787	1,173	1,274	926
Total past due loans	1,511	2,141	1,835	2,414	5,120
Foreclosed properties	2,876	3,313	3,605	8,331	8,763
Total under-performing assets	\$ 45,203	\$ 47,024	\$ 61,029	\$ 65,635	\$ 118,510
Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans)	\$ 115,121	\$ 153,215	\$ 136,597	\$ 192,214	\$ 343,943
Criticized loans	103,210	119,757	83,213	148,118	215,700
Total criticized and classified loans	\$ 218,331	\$ 272,972	\$ 219,810	\$ 340,332	\$ 559,643
Asset Quality Ratios:					
Non-performing loans/total loans (1)					
(2)	0.87%	0.88%	1.13%	1.10%	1.87%
Under-performing assets/total loans and foreclosed properties (1)	0.96	1.00	1.24	1.31	2.12
Under-performing assets/total assets	0.58	0.58	0.72	0.74	1.27
Allowance for loan losses/under-performing assets	124.91	144.16	129.20	130.65	80.36

(1) Loans include residential loans held for sale.

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

Under-performing assets are closely monitored by Old National management and 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. Under-performing assets totaled \$45.2 million at December 31, 2007 and \$47.0 million at December 31, 2006. As a percent of total loans and foreclosed properties, under-performing assets at December 31 were 0.96% for 2007 and 1.00% for 2006. The nonaccrual category of under-performing loans was \$40.8 million at December 31, 2007, a decrease of \$0.7 million since December 31, 2006. Included in nonaccrual loans at December 31, 2007 is \$10.6 million of nonaccrual loans acquired from St. Joseph. At December 31, 2007, the allowance for loan losses to under-performing assets ratio stood at 124.91% compared to 144.16% at December 31, 2006. Classified loans, including nonaccrual, renegotiated, past due 90 days and other problem loans, were \$115.1 million at December 31, 2007, a decrease of \$38.1 million from \$153.2 million at December 31, 2006. Of this total, other problem loans, which are loans reviewed for the borrower's ability to comply with present repayment terms, totaled \$72.8 million at December 31, 2007, compared to \$109.6 million at December 31, 2006. Classified loans related to the St. Joseph acquisition amounted to \$11.7 million. Criticized loans, or special mention loans, were \$103.2 million at December 31, 2007, a decrease of \$16.6 million from \$119.8 million at December 31, 2006. Management believes it has taken a prudent approach to the evaluation of under-performing, criticized and classified loans, and the loan portfolio in general both in acknowledging the portfolio's general condition and in establishing the allowance for loan losses.

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Loan officers and credit underwriters jointly grade the larger commercial and commercial real estate loans in the portfolio periodically as determined by loan policy requirements or determined by specific guidelines based on loan characteristics as set by management and banking regulation. Periodically, these loan grades are reviewed independently by the loan review department. For impaired loans, an assessment is conducted as to whether there is likely loss in the event of default. If such a loss is determined to be likely, the loss is quantified and a specific reserve is assigned to the loan. For the balance of the commercial and commercial real estate loan portfolio, loan grade migration analysis coupled with historic loss experience within the respective grades is used to develop reserve requirement ranges. These reserve requirement ranges are adjusted for management's best estimate of the effects of current economic conditions, loan quality trends, results from internal and external review examinations, loan volume trends, credit concentrations and various other factors. Historic loss ratios adjusted for expectations of future economic conditions are used in determining the appropriate level of reserves for consumer and residential real estate loans.

The activity in our allowance for loan losses is as follows:

**ALLOWANCE FOR LOAN LOSSES**

(dollars in thousands)	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Balance, January 1	\$ <b>67,790</b>	\$ 78,847	\$ 85,749	\$ 95,235	\$ 87,742
Loans charged-off:					
Commercial and commercial real estate	<b>13,690</b>	16,483	17,747	28,656	50,173
Residential real estate	<b>1,613</b>	765	1,975	2,197	1,358
Consumer credit	<b>11,635</b>	10,696	16,418	10,393	10,123
Write-downs on loans transferred to held for sale	<b>5,337</b>	2,770	5,348	4,611	14,744
Total charge-offs	<b>32,275</b>	30,714	41,488	45,857	76,398
Recoveries on charged-off loans:					
Commercial and commercial real estate	<b>5,927</b>	7,282	7,830	9,940	5,622
Residential real estate	<b>138</b>	61	81	19	82
Consumer credit	<b>5,066</b>	5,314	3,575	3,257	2,523
Total recoveries	<b>11,131</b>	12,657	11,486	13,216	8,227
Net charge-offs	<b>21,144</b>	18,057	30,002	32,641	68,171
Transfer from (to) allowance for unfunded commitments				755	(9,336)
Provision charged to expense	<b>4,118</b>	7,000	23,100	22,400	85,000
Allowance of acquired bank	<b>5,699</b>				
Balance, December 31	\$ <b>56,463</b>	\$ 67,790	\$ 78,847	\$ 85,749	\$ 95,235
Average loans for the year (1)	\$ <b>4,814,870</b>	\$ 4,823,140	\$ 5,014,660	\$ 5,340,687	\$ 5,651,434
Asset Quality Ratios: (1)					
Allowance/year-end loans	<b>1.20%</b>	1.44%	1.60%	1.72%	1.70%
Allowance/average loans	<b>1.17</b>	1.41	1.57	1.61	1.69

Net charge-offs/average loans (2)	<b>0.44</b>	0.37	0.60	0.61	1.21
(1) Loans include loans held for sale.					
(2) Net charge-offs include write-downs on loans transferred to held for sale.					

Management believes that it has appropriately identified and reserved for its loan losses at December 31, 2007. 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.

Interest income of approximately \$3.4 million and \$3.5 million would have been recorded on nonaccrual and renegotiated loans outstanding at December 31, 2007 and 2006, respectively if such loans had been accruing interest throughout the year in accordance with their original terms. The amount of interest income actually recorded on nonaccrual and renegotiated loans was \$1.0 million in both 2007 and 2006. Approximately \$12.0 million of nonaccrual loans were less than thirty days delinquent at December 31, 2007. Old National had no renegotiated loans at December 31, 2007 as compared to \$52 thousand of renegotiated loans at December 31, 2006.

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Charge-offs, net of recoveries, excluding write-downs on loans transferred to held for sale totaled \$15.8 million in 2007 and \$15.3 million in 2006. Additionally write-downs related to loan sales of \$5.3 million in 2007 and \$2.8 million in 2006 were recognized from loans transferred to held for sale. Approximately 60% of net charge-offs have been concentrated in commercial and commercial real estate loans and 30% have been in consumer loans. No single industry segment represented a significant share of total net charge-offs. The allowance to average loans, which ranged from 1.17% to 1.69% for the last five years, was 1.17% at December 31, 2007.

The following table details the allowance for loan losses by loan category and the percent of loans in each category compared to total loans at December 31.

**ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES BY CATEGORY OF LOANS  
AND THE PERCENTAGE OF LOANS BY CATEGORY TO TOTAL LOANS**

	2007		2006		2005		2004		2003	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
(dollars in thousands)										
Commercial and commercial real estate	\$ 45,927	63.3%	\$ 55,755	64.2%	\$ 59,498	63.1%	\$ 70,292	64.5%	\$ 82,635	62.2%
Residential real estate	1,601	11.4	1,702	10.3	3,849	11.1	3,689	11.2	4,400	16.9
Consumer credit	8,935	25.3	10,333	25.5	15,500	25.8	11,768	24.3	8,200	20.9
Total	\$ 56,463	100.0%	\$ 67,790	100.0%	\$ 78,847	100.0%	\$ 85,749	100.0%	\$ 95,235	100.0%

**Market Risk**

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

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

Old National uses two modeling techniques to quantify the impact of changing interest rates on the Company, Net Interest Income at Risk and Economic Value of Equity. Net Interest Income at Risk is used by management and the Board of Directors to evaluate the impact of changing rates over a two-year horizon. Economic Value of Equity is used to evaluate long-term interest rate risk. These models simulate the likely behavior of the Company's net interest income and the likely change in the Company's economic value due to changes in interest rates under various possible interest rate scenarios. Because the models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect the Company's net interest income and value, Old National recognizes that



model outputs are not guarantees of actual results. For this reason, Old National models many different combinations of interest rates and balance sheet assumptions to understand its overall sensitivity to market interest rate changes.

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Policy guidelines, in addition to December 31, 2007 and 2006 results, are as follows:

**Net Interest Income 12 Month Policies (+/-)**

	<b>Interest Rate Change in Basis Points (bp)</b>											
	<b>Down 300</b>		<b>Down 200</b>		<b>Down 100</b>		<b>Up 100</b>		<b>Up 200</b>		<b>Up 300</b>	
Green Zone	12.00%		6.50%		3.00%		3.00%		6.50%		12.00%	
Yellow Zone	12.00%	15.00%	6.50%	8.50%	3.00%	4.00%	3.00%	4.00%	6.50%	8.50%	12.00%	15.00%
Red Zone	15.00%		8.50%		4.00%		4.00%		8.50%		15.00%	
12/31/2007	0.35%		1.75%		1.45%		-1.46%		-3.10%		-4.98%	
12/31/2006	-1.51%		0.40%		0.87%		-0.93%		-2.24%		-3.76%	

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

	<b>Interest Rate Change in Basis Points (bp)</b>											
	<b>Down 300</b>		<b>Down 200</b>		<b>Down 100</b>		<b>Up 100</b>		<b>Up 200</b>		<b>Up 300</b>	
Green Zone	10.00%		5.00%		2.25%		2.25%		5.00%		10.00%	
Yellow Zone	10.00%	12.50%	5.00%	7.00%	2.25%	3.25%	2.25%	3.25%	5.00%	7.00%	10.00%	12.50%
Red Zone	12.50%		7.00%		3.25%		3.25%		7.00%		12.50%	
12/31/2007	-4.76%		-1.43%		0.03%		-0.62%		-1.46%		-2.71%	
12/31/2006	-2.96%		-0.59%		0.51%		-1.09%		-2.75%		-4.60%	

**Economic Value of Equity Policies (+/-)**

	<b>Interest Rate Change in Basis Points (bp)</b>											
	<b>Down 300</b>		<b>Down 200</b>		<b>Down 100</b>		<b>Up 100</b>		<b>Up 200</b>		<b>Up 300</b>	
Green Zone	22.00%		12.00%		5.00%		5.00%		12.00%		22.00%	
Yellow Zone	22.00%	30.00%	12.00%	17.00%	5.00%	7.50%	5.00%	7.50%	12.00%	17.00%	22.00%	30.00%
Red Zone	30.00%		17.00%		7.50%		7.50%		17.00%		30.00%	
12/31/2007	-21.80%		-10.55%		-3.39%		-0.78%		-3.78%		-8.54%	
12/31/2006	-20.41%		-10.07%		-2.03%		0.17%		-0.66%		-2.93%	

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

At December 31, 2007, modeling indicated Old National was within the green zone policy limits for all Net Interest Income at Risk and Economic Value of Equity Scenarios. Old National's green zone is considered the normal and acceptable interest rate risk level.

Old National uses derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. The Company's derivatives had an estimated fair value gain of \$20 thousand at December 31, 2007, compared to an estimated fair value loss of \$20.4 million at December 31, 2006. In addition, the notional amount of derivatives decreased by \$563.3 million. The increase in market value is primarily due to the reduction in the notional amount of the derivatives in the twelve months ended December 31, 2007 compared to the twelve months ended December 31, 2006. See Note 18 to the consolidated financial statements for further discussion of derivative

financial instruments.

**Table of Contents****Liquidity Risk**

Liquidity risk arises from the possibility the Company may not be able to satisfy current or future financial commitments, or may become unduly reliant on alternative funding sources. The Funds Management Committee of the Board of Directors establishes liquidity risk guidelines and, along with the Balance Sheet Management Committee, monitors liquidity risk. The objective of liquidity management is to ensure Old National has the ability to fund balance sheet growth and meet deposit and debt obligations in a timely and cost-effective manner. Management monitors liquidity through a regular review of asset and liability maturities, funding sources, and loan and deposit forecasts. The Company maintains strategic and contingency liquidity plans to ensure sufficient available funding to satisfy requirements for balance sheet growth, properly manage capital markets funding sources and to address unexpected liquidity requirements.

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

Old National's ability to acquire funding at competitive prices is influenced by rating agencies' views of the Company's credit quality, liquidity, capital and earnings. Standard and Poor's, Moody's Investor Service and Dominion Bond Rating Services have each issued a stable outlook in conjunction with their ratings as of December 31, 2007. Fitch Rating Services reaffirmed a negative outlook in conjunction with their ratings as of December 31, 2007. The senior debt ratings of Old National Bancorp and Old National Bank at December 31, 2007, are shown in the following table.

**SENIOR DEBT RATINGS**

	Standard and Poor's		Moody's Investor Services		Fitch, Inc.		Dominion Bond Rating Svc.	
	Long term	Short term	Long term	Short term	Long term	Short term	Long term	Short term
Old National Bancorp	BBB	A2	A2	N/A	BBB	F2	BBB (high)	R-2 (high)
Old National Bank	BBB+	A2	A1	P-1	BBB+	F2	A (low)	R-1 (low)

N/A = not applicable

As of December 31, 2007, Old National Bank had the capacity to borrow \$699.6 million from the Federal Reserve Bank's discount window. Old National Bank is also a member of the Federal Home Loan Bank (FHLB) of Indianapolis, which provides a source of funding through FHLB advances. Old National maintains relationships in capital markets with brokers and dealers to issue certificates of deposits and short-term and medium-term bank notes as well.

Old National Bancorp, the parent company, has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. Old National Bancorp obtains funding to meet its obligations from dividends and management fees collected from its subsidiaries and the issuance of debt securities. At December 31, 2007, the parent company's other borrowings outstanding was \$256.1 million, remaining relatively constant compared with \$255.5 million at December 31, 2006. Old National Bancorp, the parent company, has \$100.0 million of debt scheduled to mature within the next 12 months. Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Regulatory approval will be needed for Old National's affiliate bank to pay dividends in 2008.

**OFF-BALANCE SHEET ARRANGEMENTS**

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of Old National's customers. Old National's banking affiliates have entered into various agreements to extend credit, including loan commitments of \$1.195 billion and standby letters of credit of \$114.1 million at December 31, 2007. At December 31, 2006, loan commitments were \$1.165 billion, commercial letters of credit were \$40 thousand and standby letters of credit were \$121.7 million. The

term of these off-balance sheet arrangements is typically one year or less.

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

**Table of Contents****CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES**

The following table presents Old National's significant fixed and determinable contractual obligations and significant commitments at December 31, 2007. Further discussion of each obligation or commitment is included in the referenced note to the consolidated financial statements.

**CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES**

(dollars in thousands)	Note Reference	One Year or Less	Payments Due In			Total
			One to Three Years	Three to Five Years	Over Five Years	
Deposits without stated maturity		\$ 3,602,297	\$	\$	\$	\$ 3,602,297
Consumer and brokered certificates of deposit	9	1,397,316	308,776	99,799	255,195	2,061,086
Short-term borrowings	10	638,247				638,247
Other borrowings	11	151,037	101,083	225,734	178,868	656,722
Operating leases	19	27,986	53,871	50,794	320,840	453,491

Old National is party to various derivative contracts as a means to manage the balance sheet and its related exposure to changes in interest rates, to manage its residential real estate loan origination and sale activity, and to provide derivative contracts to its clients. Since the derivative liabilities recorded on the balance sheet change frequently and do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 18 to the consolidated financial statements.

In the normal course of business, various legal actions and proceedings are pending against Old National and its affiliates which are incidental to the business in which they are engaged. Further discussion of contingent liabilities is included in Note 19 to the consolidated financial statements.

In addition, liabilities recorded under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48) are not included in the table because the amount and timing of any cash payments cannot be reasonably estimated. Further discussion of income taxes and liabilities recorded under FIN 48 is included in Note 12 to the consolidated financial statements.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Old National's accounting policies are contained in the section of this annual report captioned "Notes to Consolidated Financial Statements-Summary of Significant Accounting Policies". Certain accounting policies require management to use significant judgment and estimates, which can have a material impact on the carrying value of certain assets and liabilities. We consider these policies to be critical accounting policies. The judgment and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from these judgments and estimates which could have a material affect on our financial condition and results of operations.

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

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



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The allowance is increased through a provision charged to operating expense. Uncollectible loans are charged-off through the allowance. Recoveries of loans previously charged-off are added to the allowance. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. Old National's policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status. A loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. Old National monitors the quality of its loan portfolio on an on-going basis and uses a combination of detailed credit assessments by relationship managers and credit officers, historic loss trends, and economic and business environment factors in determining its allowance for loan losses. Old National records provisions for loan losses based on current loans outstanding, grade changes, mix of loans and expected losses. A detailed loan loss evaluation on an individual loan basis for the Company's highest risk loans is performed quarterly. Management follows the progress of the economy and how it might affect Old National's borrowers in both the near and the intermediate term. Old National has a formalized and disciplined independent loan review program to evaluate loan administration, credit quality and compliance with corporate loan standards. This program includes periodic reviews and regular reviews of problem loan reports, delinquencies and charge-offs.

Old National uses migration analysis as a tool to determine the adequacy of the allowance for loan losses for non-retail loans that are not impaired. Migration analysis is a statistical technique that attempts to estimate probable losses for existing pools of loans by matching actual losses incurred on loans back to their origination.

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

Management's analysis of probable losses in the portfolio at December 31, 2007, resulted in a range for allowance for loan losses of \$7.9 million with the potential effect to net income ranging from a decrease of \$1.4 million to an increase of \$3.7 million. These sensitivities are hypothetical and are not intended to represent actual results.

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

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



Company as a whole and the individual lines of business in which the goodwill or intangibles reside.

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**Derivative Financial Instruments.** As part of the Company's overall interest rate risk management, Old National uses derivative instruments to reduce exposure to changes in interest rates and market prices for financial instruments. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items. To the extent hedging relationships are found to be effective, as determined by SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. However, if in the future the derivative financial instruments used by the Company no longer qualify for hedge accounting treatment, all changes in fair value of the derivative would flow through the consolidated statements of income in other noninterest income, resulting in greater volatility in our earnings. Management believes hedge effectiveness is evaluated properly in preparation of the financial statements. All of the derivative financial instruments used by the Company have active markets and indications of fair value can be readily obtained. As of December 31, 2007, the Company was not using the short-cut method of accounting for any fair value derivatives.

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

On January 1, 2007, the Company adopted FIN 48 to account for uncertain tax positions. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 12 to the Consolidated Financial Statements for a further description of the Company's provision and related income tax assets and liabilities.

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

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information contained under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations Market Risk on page 33 of this Form 10-K is incorporated herein by reference in response to this item.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****REPORT OF MANAGEMENT****MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

Management is responsible for the preparation of the financial statements and related financial information appearing in this annual report on Form 10-K. The financial statements and notes have been prepared in conformity with accounting principles generally accepted in the United States of America and include some amounts which are estimates based upon currently available information and management's judgment of current conditions and circumstances. Financial information throughout this annual report on Form 10-K is consistent with that in the financial statements.

Management maintains a system of internal accounting controls which is believed to provide, in all material respects, reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized and recorded, and the financial records are reliable for preparing financial statements and

maintaining accountability for assets. In addition, Old National has a Code of Business Conduct and Ethics, a Senior Financial and Executive Officer Code of Ethics and Corporate Governance Guidelines that outline high levels of ethical business standards. All systems of internal accounting controls are based on management's judgment that the cost of controls should not exceed the benefits to be achieved and that no system can provide absolute assurance that control objectives are achieved. Management believes Old National's system provides the appropriate balance between cost of controls and the related benefits.

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In order to monitor compliance with this system of controls, Old National maintains an extensive internal audit program. Internal audit reports are issued to appropriate officers and significant audit exceptions, if any, are reviewed with management and the Audit Committee of the Board of Directors.

The Board of Directors, through an Audit Committee comprised solely of independent outside directors, oversees management's discharge of its financial reporting responsibilities. The Audit Committee meets regularly with Old National's independent registered public accounting firm, Crowe Chizek and Company LLC, and the managers of internal audit and loan review. During these meetings, the committee has the opportunity to meet privately with the independent registered public accounting firm as well as with internal audit and loan review personnel to review accounting, auditing, loan and financial reporting matters. The appointment of the independent registered public accounting firm is made by the Audit Committee of the Board of Directors.

The consolidated financial statements in this annual report on Form 10-K have been audited by Crowe Chizek and Company LLC, for the purpose of determining that the consolidated financial statements are presented fairly, in all material respects in conformity with accounting principles generally accepted in the United States of America. Crowe Chizek and Company LLC's report on the financial statements follows.

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Old National is responsible for establishing and maintaining adequate internal control over financial reporting. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Old National's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on that assessment Old National has concluded that, as of December 31, 2007, the company's internal control over financial reporting is effective. Old National's independent registered public accounting firm has audited the effectiveness of the company's internal control over financial reporting as of December 31, 2007 as stated in their report which follows.

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**Crowe Chizek and Company LLC**

Member Horwath International

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders

Old National Bancorp

Evansville, Indiana

We have audited the accompanying consolidated balance sheets of Old National Bancorp as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. We also have audited Old National Bancorp's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Old National Bancorp's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Old National Bancorp as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Old National Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

Crowe Chizek and Company LLC  
Indianapolis, Indiana  
February 21, 2008

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and  
Board of Directors of  
Old National Bancorp:

In our opinion, the consolidated statements of income, changes in shareholders' equity and cash flows for the year ended December 31, 2005 present fairly, in all material respects, the results of operations and cash flows of Old National Bancorp and its subsidiaries (the Company) for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Chicago, Illinois  
March 8, 2006

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

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
(dollars and shares in thousands, except per share data)		
<b>Assets</b>		
Cash and due from banks	\$ 255,192	\$ 210,303
Federal funds sold and resell agreements		283,524
Money market investments	8,480	4,078
Total cash and cash equivalents	263,672	497,905
Securities available-for-sale, at fair value	2,140,641	2,175,163
Securities held-to-maturity, at amortized cost (fair value \$124,504 and \$157,720 respectively)	126,769	162,138
Federal Home Loan Bank stock, at cost	41,090	38,809
Residential loans held for sale	13,000	16,634
Loans, net of unearned income	4,686,356	4,700,003
Allowance for loan losses	(56,463)	(67,790)
Net loans	4,629,893	4,632,213
Premises and equipment, net	48,652	122,865
Accrued interest receivable	50,277	53,344
Goodwill	159,198	113,350
Other intangible assets	31,778	20,813
Company-owned life insurance	214,486	198,038
Assets held for sale	3,969	
Other assets	122,701	118,243
Total assets	\$ 7,846,126	\$ 8,149,515
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing demand	\$ 855,449	\$ 877,870
Interest-bearing:		
NOW	1,410,667	1,449,202
Savings	774,054	437,702
Money market	562,127	925,296
Time	2,061,086	2,631,424
Total deposits	5,663,383	6,321,494
Short-term borrowings	638,247	312,911
Other borrowings	656,722	747,545
Accrued expenses and other liabilities	234,893	125,196
Total liabilities	7,193,245	7,507,146



Commitments and contingencies (Note 19)

**Shareholders' Equity**

Preferred stock, 2,000 shares authorized, no shares issued or outstanding		
Common stock, \$1 stated value, 150,000 shares authorized, 66,205 and 66,503 shares issued and outstanding, respectively	<b>66,205</b>	66,503
Capital surplus	<b>563,675</b>	565,106
Retained earnings	<b>34,346</b>	35,873
Accumulated other comprehensive loss, net of tax	<b>(11,345)</b>	(25,113)
 Total shareholders' equity	 <b>652,881</b>	 642,369
 Total liabilities and shareholders' equity	 <b>\$ 7,846,126</b>	 \$ 8,149,515

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

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

(dollars and shares in thousands, except per share data)	<b>Years Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Interest Income</b>			
Loans including fees:			
Taxable	\$ <b>322,558</b>	\$ 313,686	\$ 292,531
Nontaxable	<b>21,735</b>	19,802	17,516
Investment securities, available-for-sale:			
Taxable	<b>91,969</b>	88,491	82,010
Nontaxable	<b>12,192</b>	18,527	24,236
Investment securities, held-to-maturity, taxable	<b>6,649</b>	6,650	7,433
Money market investments	<b>6,265</b>	4,557	1,513
<b>Total interest income</b>	<b>461,368</b>	451,713	425,239
<b>Interest Expense</b>			
Deposits	<b>183,113</b>	172,584	138,862
Short-term borrowings	<b>18,193</b>	15,995	9,629
Other borrowings	<b>40,871</b>	50,417	57,596
<b>Total interest expense</b>	<b>242,177</b>	238,996	206,087
Net interest income	<b>219,191</b>	212,717	219,152
Provision for loan losses	<b>4,118</b>	7,000	23,100
<b>Net interest income after provision for loan losses</b>	<b>215,073</b>	205,717	196,052
<b>Noninterest Income</b>			
Wealth management fees	<b>18,710</b>	19,519	20,269
Service charges on deposit accounts	<b>44,751</b>	42,291	47,154
ATM fees	<b>14,476</b>	12,077	11,145
Mortgage banking revenue	<b>4,439</b>	4,143	4,918
Insurance premiums and commissions	<b>38,996</b>	41,490	35,242
Investment product fees	<b>10,727</b>	8,699	8,975
Company-owned life insurance	<b>9,817</b>	8,966	8,147
Net securities gains (losses)	<b>(3,023)</b>	1,471	901
Gain on branch divestitures		3,036	14,597
Gain (loss) on derivatives	<b>166</b>	1,511	(3,436)
Gain on sale leasebacks	<b>6,261</b>		
Other income	<b>9,818</b>	10,717	13,690
<b>Total noninterest income</b>	<b>155,138</b>	153,920	161,602
<b>Noninterest Expense</b>			
Salaries and employee benefits	<b>163,722</b>	157,622	147,782
Occupancy	<b>26,466</b>	19,927	20,352
Equipment	<b>11,109</b>	12,728	14,415

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Marketing	<b>8,407</b>	10,400	8,323
Data processing	<b>19,212</b>	17,963	21,209
Communication	<b>9,334</b>	9,156	9,863
Professional fees	<b>7,705</b>	7,602	9,297
Loan expense	<b>5,965</b>	5,696	5,250
Supplies	<b>3,495</b>	3,413	3,812
Loss on extinguishment of debt	<b>1,541</b>	129	1,704
Impairment of long-lived assets	<b>1,163</b>	1,252	
Donations	<b>1,718</b>	319	5,648
Other expense	<b>18,161</b>	18,483	16,156
Total noninterest expense	<b>277,998</b>	264,690	263,811
Income before income taxes and discontinued operations	<b>92,213</b>	94,947	93,843
Income tax expense	<b>17,323</b>	15,574	15,254
Income from continuing operations	<b>74,890</b>	79,373	78,589
Loss from discontinued operations, net of tax expense of \$0, \$0, and \$6,603 respectively			(14,825)
Net income	<b>\$ 74,890</b>	\$ 79,373	\$ 63,764
Basic net income per share from continuing operations	<b>\$ 1.14</b>	\$ 1.20	\$ 1.16
Basic net income per share from discontinued operations			(0.22)
Basic net income per share	<b>1.14</b>	1.20	0.94
Diluted net income per share from continuing operations	<b>1.14</b>	1.20	1.15
Diluted net income per share from discontinued operations			(0.22)
Diluted net income per share	<b>1.14</b>	1.20	0.93
Dividends per common share	<b>1.11</b>	0.84	0.76

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

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

	Common Stock		Capital	Retained	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Comprehensive Income
(dollars and shares in thousands)	Shares Issued	Amount	Surplus	Earnings	(Loss)	Equity	Income
<b>Balance, December 31, 2004</b>	69,287	\$ 69,287	\$ 630,461	\$	\$ 4,344	\$ 704,092	
Comprehensive income							
Net income				63,764		63,764	\$ 63,764
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					(26,732)	(26,732)	(26,732)
Net unrealized derivative gains on cash flow hedges, net of reclassification and tax					633	633	633
Total comprehensive income							\$ 37,665
Stock issued for acquisitions	971	971	17,569			18,540	
Cash dividends				(51,690)		(51,690)	
Stock repurchased	(3,000)	(3,000)	(60,902)			(63,902)	
Exercise of stock options, including tax benefits	218	218	4,141			4,359	
Stock based compensation expense			915			915	
Stock issued (forfeited) under restricted stock and stock compensation plans	173	173	(254)			(81)	
<b>Balance, December 31, 2005</b>	67,649	67,649	591,930	12,074	(21,755)	649,898	
Comprehensive income							
Net income				79,373		79,373	\$ 79,373
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					4,061	4,061	4,061
Reclassification adjustment on cash flow hedges, net of tax					410	410	410
Total comprehensive income							\$ 83,844
Adjustment to apply SFAS No. 158					(7,829)	(7,829)	
Adjustments to stock issued for prior acquisitions	(1)	(1)	(15)			(16)	
Cash dividends				(55,574)		(55,574)	

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Stock repurchased	(1,447)	(1,447)	(28,012)			(29,459)	
Exercise of stock options, including tax benefits	36	36	655			691	
Stock based compensation expense			712			712	
Stock issued (forfeited) under restricted stock and stock compensation plans	266	266	(164)			102	
<b>Balance, December 31, 2006</b>	<b>66,503</b>	<b>66,503</b>	<b>565,106</b>	<b>35,873</b>	<b>(25,113)</b>	<b>642,369</b>	
Comprehensive income							
Net income				<b>74,890</b>		<b>74,890</b>	<b>\$ 74,890</b>
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					<b>12,582</b>	<b>12,582</b>	<b>12,582</b>
Reclassification adjustment on cash flow hedges, net of tax					<b>343</b>	<b>343</b>	<b>343</b>
Reclassification adjustment on defined benefit pension plans, net of tax					<b>843</b>	<b>843</b>	<b>843</b>
Total comprehensive income							<b>\$ 88,658</b>
Adjustment to apply FIN No. 48 (1)				<b>(3,368)</b>		<b>(3,368)</b>	
Adjustment to apply EITF No. 06-5 (1)				<b>(118)</b>		<b>(118)</b>	
Cash dividends				<b>(72,931)</b>		<b>(72,931)</b>	
Stock repurchased	<b>(230)</b>	<b>(230)</b>	<b>(3,872)</b>			<b>(4,102)</b>	
Exercise of stock options, including tax benefits	<b>12</b>	<b>12</b>	<b>107</b>			<b>119</b>	
Stock based compensation expense			<b>1,590</b>			<b>1,590</b>	
Stock issued (forfeited) under restricted stock and stock compensation plans	<b>(80)</b>	<b>(80)</b>	<b>192</b>			<b>112</b>	
Stock options issued in acquisition			<b>552</b>			<b>552</b>	
<b>Balance, December 31, 2007</b>	<b>66,205</b>	<b>\$ 66,205</b>	<b>\$ 563,675</b>	<b>\$ 34,346</b>	<b>\$ (11,345)</b>	<b>\$ 652,881</b>	

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

(1) See Note 1 to the consolidated financial statements.

**Table of Contents****OLD NATIONAL BANCORP  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(dollars in thousands)	<b>Years Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 74,890	\$ 79,373	\$ 63,764
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	7,855	12,825	14,922
Amortization of other intangible assets and goodwill impairment	3,497	2,390	6,012
Net (discount) premium amortization on investment securities	(2,511)	(2,180)	2,643
Restricted stock expense (benefit)	1,292	(17)	915
Stock option expense	298	729	
Provision for loan losses	4,118	7,000	23,100
Net securities (gains) losses	3,023	(1,471)	(901)
Gain on branch divestitures		(3,036)	(14,597)
Gain on sale leasebacks	(6,261)		
(Gain) loss on derivatives	(166)	(1,511)	3,436
Loss on sale of discontinued operations			10,186
Net gains on sales and write-downs of loans and other assets	(1,577)	(1,261)	(5)
Loss on retirement of debt	1,541	129	1,704
FHLB stock dividend		(57)	(66)
Increase in cash surrender value of company-owned life insurance	(7,756)	(4,574)	(7,894)
Residential real estate loans originated for sale	(238,460)	(259,829)	(344,699)
Proceeds from sale of residential real estate loans	245,654	290,308	324,414
Decrease in interest receivable	5,290	2,225	989
(Increase) decrease in other assets	2,091	3,415	(12,142)
Increase (decrease) in accrued expenses and other liabilities	(18,641)	(4,290)	21,487
Total adjustments	(713)	40,795	29,504
Net cash flows provided by operating activities	74,177	120,168	93,268
<b>Cash Flows From Investing Activities</b>			
Cash and cash equivalents of subsidiaries acquired, net	17,429		2,699
Purchase of subsidiaries	(78,109)		
Purchases of investment securities available-for-sale	(811,266)	(719,858)	(582,600)
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	739,443	511,665	383,785
Proceeds from sales of investment securities available-for-sale	205,362	354,734	638,877
Purchases of investment securities held-to-maturity		(24,730)	(25,000)
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	34,495	28,666	35,152
Proceeds from redemption of FHLB stock	838	591	
Proceeds (payments) related to branch divestitures		10,511	(32,470)
Proceeds from sale of loans	15,581	26,062	21,355

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Net principal collected from (loans made to) customers	<b>306,848</b>	121,794	(94,611)
Proceeds from sale of premises and equipment and other assets	<b>4,511</b>	2,938	4,779
Proceeds from sale leaseback of real estate	<b>182,192</b>	78,606	
Purchases of premises and equipment	<b>(9,055)</b>	(12,348)	(14,705)
Proceeds from sale of discontinued operations			37,337
<b>Net cash flows provided by investing activities</b>	<b>608,269</b>	378,631	374,598
<b>Cash Flows From Financing Activities</b>			
Net increase (decrease) in deposits and short-term borrowings:			
Noninterest-bearing demand deposits	<b>(61,720)</b>	(13,068)	64,266
Savings, NOW and money market deposits	<b>(325,713)</b>	(163,264)	87,987
Time deposits	<b>(634,661)</b>	53,486	67,413
Short-term borrowings	<b>297,017</b>	10,146	(44,013)
Payments for maturities on other borrowings	<b>(14,159)</b>	(182,241)	(345,164)
Proceeds from issuance of other borrowings	<b>74,000</b>		50,000
Payments related to retirement of debt	<b>(189,790)</b>	(24,129)	(51,704)
Cash dividends paid	<b>(57,782)</b>	(55,574)	(51,690)
Common stock repurchased	<b>(4,102)</b>	(29,459)	(63,902)
Proceeds from exercise of stock options, including tax benefit	<b>119</b>	691	4,359
Common stock issued under stock option, restricted stock and stock purchase plans	<b>112</b>	102	
<b>Net cash flows used in financing activities</b>	<b>(916,679)</b>	(403,310)	(282,448)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(234,233)</b>	95,489	185,418
<b>Cash and cash equivalents at beginning of period</b>	<b>497,905</b>	402,416	216,998
<b>Cash and cash equivalents at end of period</b>	<b>\$ 263,672</b>	<b>\$ 497,905</b>	<b>\$ 402,416</b>

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

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**OLD NATIONAL BANCORP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
NATURE OF OPERATIONS**

Old National Bancorp, a financial holding company headquartered in Evansville, Indiana, operates primarily in Indiana, Illinois, and Kentucky. Its principal subsidiaries include Old National Bank, ONB Insurance Group, Inc., ONB Finance Inc. and American National Trust & Investment Management Corp. Through its bank and non-bank affiliates, Old National Bancorp provides to its clients an array of financial services including loan, deposit, wealth management, investment consulting, investment and insurance products.

**NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF PRESENTATION**

The accompanying consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates ( Old National ) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, goodwill and intangibles, derivative financial instruments, and income taxes are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of December 31, 2007 and 2006, and the results of its operations and cash flows for the years ended December 31, 2007, 2006 and 2005.

All significant intercompany transactions and balances have been eliminated. A summary of the more significant accounting and reporting policies used in preparing the statements is presented below.

**INVESTMENT SECURITIES**

Old National classifies investment securities as available-for-sale or held-to-maturity on the date of purchase. Securities classified as available-for-sale are recorded at fair value with the unrealized gains and losses, net of tax effect, recorded in other comprehensive income. Realized gains and losses affect income and the prior fair value adjustments are reclassified within shareholders' equity. Securities classified as held-to-maturity, which management has the intent and ability to hold to maturity, are reported at amortized cost. Premiums and discounts are amortized on the level-yield method. Anticipated prepayments are considered when amortizing premiums and discounts on mortgage backed securities. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer and the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

**FEDERAL HOME LOAN BANK (FHLB) STOCK**

Old National is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

**RESIDENTIAL LOANS HELD FOR SALE**

Residential loans that Old National has committed to sell are classified as loans held for sale and are recorded at lower of cost or market value, determined individually, as of the balance sheet date. Interest rate risk on a portion of Old National's residential loans held for sale have been hedged using fair value hedge accounting in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The loans' carrying bases reflect the effects of the SFAS No. 133 adjustments.





**Table of Contents****LOANS**

Loans that Old National intends to hold for investment purposes are classified as portfolio loans. Portfolio loans are carried at the principal balance outstanding, net of earned interest, purchase premiums or discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the principal balances of loans outstanding. A loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. Interest accrued during the current year on such loans is reversed against earnings. Interest accrued in the prior year, if any, is charged to the allowance for loan losses. Cash interest received on these loans is applied to the principal balance until the principal is recovered or until the loan returns to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for six months and future payments are reasonably assured.

**ALLOWANCE FOR LOAN LOSSES**

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses incurred in the loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, assessments of the impact of current economic conditions on the portfolio, and historical loss experience. The allowance is increased through a provision charged to operating expense. Loans deemed to be uncollectible are charged to 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. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Old National's policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status.

It is Old National's policy to charge off small commercial loans scored through our small business credit center with contractual balances under \$250,000 that have been placed on nonaccrual status or became ninety days or more delinquent, without regard to the collateral position.

**PREMISES AND EQUIPMENT**

Premises and equipment are stated at cost less accumulated depreciation. Land is stated at cost. Depreciation is charged to operating expense over the useful lives of the assets, principally on the straight-line method. Useful lives for premises and equipment are as follows: buildings and building improvements 15 to 39 years; and furniture and equipment 3 to 10 years. Leasehold improvements are depreciated over the lesser of their useful lives or the term of the lease. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Interest costs on construction of qualifying assets are capitalized.

Premises and equipment are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are adjusted to fair value. Old National recorded impairment of \$1.2 million and \$1.3 million for the years ended December 31, 2007 and 2006, respectively.

**GOODWILL AND OTHER INTANGIBLE ASSETS**

The excess of the cost of acquired entities over the fair value of identifiable assets acquired less liabilities assumed is recorded as goodwill. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, amortization on goodwill and indefinite-lived assets is not recorded. However, the recoverability of goodwill and other intangible assets are annually tested for impairment. Other intangible assets, including core deposits and customer business relationships, are amortized primarily on an accelerated cash flow basis over their estimated useful lives, generally over a period of 10 to 25 years.

**COMPANY OWNED LIFE INSURANCE**

Old National has purchased life insurance policies on certain key executives. Upon adoption of EITF 06-5, which is discussed below, company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The amount of company owned life insurance at December 31, 2007 and 2006 was \$214.5 million and \$198.0 million, respectively.



**Table of Contents****DERIVATIVE FINANCIAL INSTRUMENTS**

As part of the Company's overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. All derivative instruments are recognized on the balance sheet at their fair value in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. At the inception of the derivative contract, the Company will designate the derivative as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ( fair value hedge ), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ( cash flow hedge ), or (3) an instrument with no hedging designation ( stand-alone derivative ). For derivatives that are designated and qualify as a fair value hedge, the change in value on the derivative, as well as the offsetting change in value on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. As of December 31, 2007, Old National was not using the short-cut method of accounting for any fair value derivatives. For derivatives that are designated and qualify as a cash flow hedge, the effective portion of the change in value on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For all hedging relationships, changes in fair value of derivatives that are not effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings during the period of the change. Similarly, the changes in the fair value of derivatives that do not qualify for hedge accounting under SFAS No. 133 are also reported currently in earnings, in noninterest income.

The accrued net settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. The change in fair value on derivatives including accrued net settlements that do not qualify for hedge accounting are reported in noninterest income.

Old National formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair-value or cash-flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The Company discontinues hedge accounting prospectively when it is determined that (1) the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item; (2) the derivative expires, is sold, or terminated; (3) the derivative instrument is dedesignated as a hedge because the forecasted transaction is no longer probable of occurring; (4) a hedged firm commitment no longer meets the definition of a firm commitment; (5) or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued, the future changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transaction is still expected to occur, changes in value that were accumulated in other comprehensive income are amortized or accreted into earnings over the same periods which the hedged transactions will affect earnings.

Old National enters into various stand-alone mortgage-banking derivatives in order to hedge the risk associated with the fluctuation of interest rates. Old National also enters into various stand-alone derivative contracts primarily to focus on providing derivative products to customers which are carried at fair value with changes in fair value recorded as noninterest income in the statement of income.

Old National is exposed to losses if a counterparty fails to make its payments under a contract in which Old National is in the net receiving position. Old National anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. In addition, Old National obtains collateral above certain thresholds of the fair value of its hedges for each counterparty based upon their credit standing. All of the contracts to which Old National is a party settle monthly, quarterly or semiannually. Further, Old National has netting agreements with the dealers with which it does business.



**Table of Contents****CREDIT-RELATED FINANCIAL INSTRUMENTS**

In the ordinary course of business, Old National's affiliate bank has entered into credit-related financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. These commitments are not reflected in the consolidated financial statements until they are funded.

**FORECLOSED REAL ESTATE**

Other assets include real estate properties acquired as a result of foreclosure and are initially recorded at the fair value of the property less estimated cost to sell. Any excess recorded investment over the fair value of the property received is charged to the allowance for loan losses. Any subsequent write-downs are charged to expense, as are the costs of operating the properties. Such costs are not material to Old National's results of operation. The amount of foreclosed properties at December 31, 2007 and 2006 was \$2.9 million and \$3.3 million, respectively.

**SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

The Company purchases certain securities, generally U.S. Government-sponsored entity and agency securities, under agreements to resell. The amounts advanced under these agreements represent short-term secured loans and are reflected as assets in the accompanying consolidated balance sheets. The Company also sells certain securities under agreements to repurchase. These agreements are treated as collateralized financing transactions. These secured borrowings are reflected as liabilities in the accompanying consolidated balance sheets and are recorded at the amount of cash received in connection with the transaction. Short-term securities sold under agreements to repurchase generally mature within one to four days from the transaction date. Securities, generally U.S. government and federal agency securities, pledged as collateral under these financing arrangements can be repledged by the secured party. Additional collateral may be required based on the fair value of the underlying securities.

**COMPREHENSIVE INCOME**

Comprehensive income includes all changes in equity during a period, except those resulting from investments by and distributions to owners. Following is a summary of other comprehensive income for the years ended December 31, 2007, 2006 and 2005.

(dollars in thousands)	<b>2007</b>	<b>2006</b>	<b>2005</b>
Net income	\$ <b>74,890</b>	\$ 79,373	\$ 63,764
Other comprehensive income			
Change in securities available for sale:			
Unrealized holding gains (losses) arising during the period	<b>17,894</b>	8,832	(43,379)
Reclassification adjustment for securities (gains) losses realized in income	<b>3,023</b>	(1,471)	(901)
Income tax effect	<b>(8,335)</b>	(3,300)	17,548
Cash flow hedges:			
Net unrealized derivative gains (losses) on cash flow hedges			947
Reclassification adjustment on cash flow hedges	<b>564</b>	674	94
Income tax effect	<b>(221)</b>	(264)	(408)
Defined benefit pension plans:			
Amortization of net (gain) loss recognized in income	<b>1,405</b>		
Income tax effect	<b>(562)</b>		
Total other comprehensive income	<b>13,768</b>	4,471	(26,099)
Comprehensive income	\$ <b>88,658</b>	\$ 83,844	\$ 37,665



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The following table summarizes the changes within each classification of accumulated other comprehensive income for the years ended December 31, 2007 and 2006:

(dollars in thousands)	Unrealized gains (losses) on securities	Unrecognized gain (loss) on cash flow hedges	Defined benefit pension plans	Accumulated other comprehensive income
Balance at December 31, 2005	\$ (20,347)	\$ (1,408)	\$ (7,829)	\$ (21,755)
Adjustment to apply SFAS No. 158			(7,829)	(7,829)
Other comprehensive income	4,061	410		4,471
Balance at December 31, 2006	<b>(16,286)</b>	<b>(998)</b>	<b>(7,829)</b>	<b>(25,113)</b>
Other comprehensive income	<b>12,582</b>	<b>343</b>	<b>843</b>	<b>13,768</b>
Balance at December 31, 2007	<b>\$ (3,704)</b>	<b>\$ (655)</b>	<b>\$ (6,986)</b>	<b>\$ (11,345)</b>

**NET INCOME PER SHARE**

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during each year. Diluted net income per share is computed as above and assumes the conversion of outstanding stock options and restricted stock.

The following table reconciles basic and diluted net income per share for the years ended December 31.

**NET INCOME PER SHARE RECONCILIATION**

(dollars and shares in thousands, except per share data)	<b>2007</b>		<b>2006</b>			<b>2005</b>			
	<b>Income</b>	<b>Shares</b>	<b>Amount</b>	<b>Income</b>	<b>Shares</b>	<b>Amount</b>	<b>Income</b>	<b>Shares</b>	<b>Amount</b>
<b>Basic Net Income Per Share</b>									
Income from continuing operations	<b>\$ 74,890</b>	<b>65,684</b>	<b>\$ 1.14</b>	\$ 79,373	66,226	\$ 1.20	\$ 78,589	68,095	\$ 1.16
Income from discontinued operations		<b>65,684</b>			66,226		(14,825)	68,095	(0.22)
<b>Income from operations</b>	<b>\$ 74,890</b>		<b>\$ 1.14</b>	\$ 79,373		\$ 1.20	\$ 63,764		\$ 0.94
<b>Effect of dilutive securities:</b>									
Restricted stock		<b>40</b>			28				
Stock options (1)		<b>26</b>			7			161	
<b>Diluted Net Income per Share</b>									
Income from continuing operations and assumed conversions	<b>\$ 74,890</b>	<b>65,750</b>	<b>\$ 1.14</b>	\$ 79,373	66,261	\$ 1.20	\$ 78,589	68,256	\$ 1.15
Income from discontinued operations		<b>65,750</b>			66,261		(14,825)	68,256	(0.22)



<b>Income from operations and assumed conversions</b>	<b>\$ 74,890</b>	<b>\$ 1.14</b>	\$ 79,373	\$ 1.20	\$ 63,764	\$ 0.93
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(1) Options to purchase 5,756 shares, 5,864 shares and 1,811 shares outstanding at December 31, 2007, 2006 and 2005, respectively, were not included in the computation of net income per diluted share because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

#### **INCOME TAXES**

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), as of January 1, 2007. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The impact of adopting FIN 48 was a reduction to January 1, 2007 retained earnings of \$3.4 million.

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The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

**STATEMENT OF CASH FLOWS DATA**

For the purpose of presentation in the accompanying consolidated statement of cash flows, cash and cash equivalents are defined as cash, due from banks, federal funds sold and resell agreements, and money market investments, which have maturities less than 90 days. Cash paid during 2007, 2006 and 2005 for interest was \$249.2 million, \$236.0 million and \$195.5 million, respectively. Cash paid for income tax, net of refunds, during 2007, 2006 and 2005 was \$30.0 million, \$12.3 million and \$8.9 million, respectively. Other noncash transactions include stock issued in acquisitions of subsidiaries of \$18.5 million in 2005, loans transferred to loans held for sale of \$20.9 million in 2007, \$28.8 million in 2006 and \$26.7 million in 2005, and premises and equipment transferred to assets held for sale of \$74.1 million in 2007, \$69.9 million in 2006 and \$0.4 million in 2005.

**IMPACT OF ACCOUNTING CHANGES**

**FASB Interpretation No. 48** In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ( FIN 48 ), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 became effective for the Company on January 1, 2007. The impact of adopting FIN 48 was a reduction to January 1, 2007 retained earnings of \$3.4 million.

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

**SFAS No. 157** In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The new standard is effective for the Company on January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on the company's consolidated financial position or results of operations.

**SFAS No. 159** In February 2007, the FASB issued Statement No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. On January 1, 2008, the effective date of this pronouncement, Old National did not elect the fair value option for any financial assets or liabilities. Management expects to elect the fair value option on newly originated residential mortgage loans held for sale and certain retail certificates of deposit on a prospective basis. Management does not believe the adoption of this statement will have a material impact on the company's consolidated financial position or results of operations.

**SFAS No. 141(R)** In December 2007, the FASB issued Statement No. 141(R) *Business Combinations*. This statement replaces FASB Statement No. 141 *Business Combinations*. SFAS No. 141(R) establishes principles and requirements for how an acquiring company (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The new standard is effective for the Company on January 1, 2009. The Company is currently

evaluating the impact of adopting SFAS No. 141(R) on the consolidated financial statements.

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**SFAS No. 160** In December 2007, the FASB issued Statement No. 160 *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*. SFAS No. 160 requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the consolidated balance sheet within equity, but separate from the parent's equity. It also requires the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. The new standard is effective for the Company on January 1, 2009. The Company is currently evaluating the impact of adopting SFAS No. 160 on the consolidated financial statements.

**SAB 109** In November 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 109 (SAB 109). SAB 109 modifies how to apply generally accepted accounting principles to loan commitments that are accounted for at fair value through earnings. Prior to SAB 109, when companies measured the fair value of a derivative loan commitment, the expected net future cash flows related to the associated servicing of the loan was excluded. Under SAB 109, the expected net future cash flows related to the associated servicing of the loans sold will be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 109 was effective for the Company on January 1, 2008. There was no material impact to Old National's consolidated financial position or results of operations upon adoption.

**EITF 06-4** In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. This EITF Issue addresses accounting for separate agreements which split life insurance policy benefits between an employer and employee. The Issue requires the employer to recognize a liability for future benefits payable to the employee under these agreements. The effects of applying this Issue must be recognized through either a change in accounting principle through an adjustment to equity or through the retrospective application to all prior periods. The Issue is effective for the Company January 1, 2008. Management does not expect the adoption of the Issue to have a material impact on its consolidated financial position or results of operations.

**EITF 06-10** - In March 2007, the FASB Emerging Issues Task Force reached a consensus on Issue No. 06-10, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements*. This Issue provides guidance to help companies determine whether a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement should be recorded in accordance with either SFAS No. 106 *Employers' Accounting for Postretirement Benefits Other Than Pensions* (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract). EITF 06-10 also provides guidance on how a company should recognize and measure the asset in a collateral assignment split-dollar life insurance contract. EITF 06-10 is effective for the Company on January 1, 2008. Management does not expect the adoption of this EITF to have a material impact on its consolidated financial position or results of operations.

**RECLASSIFICATIONS**

Certain prior year amounts have been reclassified to conform to the 2007 presentation. Such reclassifications had no effect on net income.

**NOTE 2 ACQUISITION AND DIVESTITURE ACTIVITY****ACQUISITION**

On February 1, 2007, Old National acquired St. Joseph Capital Corporation ("St. Joseph"), a banking franchise headquartered in Mishawaka, Indiana, for \$78.1 million, including acquisition costs. Pursuant to the merger agreement, the shareholders of St. Joseph received \$40.00 in cash for each share of St. Joseph stock in an all-cash transaction. Goodwill of \$45.8 million was recorded, of which none is deductible for tax purposes. In addition, intangible assets totaling \$14.5 million related to core deposits and customer relationships were recorded and are being amortized over 10 to 11 years. See Note 7 to the consolidated financial statements for additional information. On the date of acquisition, unaudited financial statements of St. Joseph showed assets of \$452.9 million, which included \$336.6 million of loans and \$78.6 million of securities, \$357.3 million of deposits and year-to-date net interest income and other income of \$0.8 million and net loss of \$3.3 million.



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On May 1, 2005, Old National acquired J. W. F. Insurance Companies, an Indianapolis, Indiana-based insurance agency that did business as J.W. Flynn Company and J.W.F. Specialty Company, Inc., for \$19.0 million, including acquisition costs. Common shares of 970,912 were issued as part of the transaction with a stock value of \$18.5 million. Goodwill of \$12.0 million was recorded of which \$3.5 million is expected to be deductible for tax purposes. In addition, intangible assets totaling \$8.4 million related to customer business relationships were recorded and are being amortized over 12 to 22 years. These acquisitions are included in the other column of Note 23. On the date of acquisition, financial statements of the companies showed assets of \$5.0 million with year-to-date revenues of \$4.7 million and net loss of \$0.2 million.

**DIVESTITURES**

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

In October, 2005 Old National sold five financial centers located in the Clarksville, Tennessee market assigning \$172.7 million in deposits and selling approximately \$114.3 million in loans outstanding. These branches are in markets no longer considered consistent with the Company's strategy. The sale resulted in a pre-tax gain of \$14.6 million which was included in income from continuing operations during the fourth quarter.

During the third quarter of 2005, Old National sold J.W. Terrill Insurance Agency ( Terrill ) in St. Louis, Missouri, and Fund Evaluation Group ( FEG ) in Cincinnati, Ohio, to better align its operations with its market and product focus. Old National sold Terrill for \$22.2 million of cash. Terrill had been acquired in a tax-free reorganization under Internal Revenue Code section 368, and as a result of the taxable sale, Old National recorded a loss of \$8.7 million, including \$8.6 million of tax expense. On September 30, 2005, Old National completed the sale of FEG for \$15.1 million of cash and a \$0.5 million note receivable. The sale resulted in an after tax loss of \$5.9 million. These losses were included in discontinued operations.

Results of discontinued operations for the year ended December 31, 2005 is as follows:

(dollars in thousands, except per share data)	<b>2005</b>
Revenues	\$ 21,063
Net income (loss)	(14,825)
Diluted net income (loss) per share	(0.22)

**Table of Contents****NOTE 3 INVESTMENT SECURITIES**

The following tables summarize the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at December 31 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>2007</b>				
<b>Available-for-Sale</b>				
U.S. Government-sponsored entities and agencies	\$ 678,545	\$ 10,757	\$ (355)	\$ 688,947
Mortgage-backed securities	963,039	1,838	(23,910)	940,967
States and political subdivisions	286,898	8,404	(418)	294,884
Other securities	218,888	1,007	(4,052)	215,843
Total available-for-sale securities	\$ 2,147,370	\$ 22,006	\$ (28,735)	\$ 2,140,641
<b>Held-to-Maturity</b>				
Mortgage-backed securities	\$ 107,830	\$	\$ (2,237)	\$ 105,593
Other securities	18,939		(28)	18,911
Total held-to-maturity securities	\$ 126,769	\$	\$ (2,265)	\$ 124,504
<b>2006</b>				
<b>Available-for-Sale</b>				
U.S. Government-sponsored entities and agencies	\$ 685,809	\$ 1,881	\$ (7,541)	\$ 680,149
Mortgage-backed securities	1,049,712	1,733	(31,267)	1,020,178
States and political subdivisions	264,343	9,095	(113)	273,325
Other securities	202,945	1,384	(2,818)	201,511
Total available-for-sale securities	\$ 2,202,809	\$ 14,093	\$ (41,739)	\$ 2,175,163
<b>Held-to-Maturity</b>				
Mortgage-backed securities	\$ 126,800	\$	\$ (4,312)	\$ 122,488
Other securities	35,338		(106)	35,232
Total held-to-maturity securities	\$ 162,138	\$	\$ (4,418)	\$ 157,720

Proceeds from sales of investment securities available-for-sale were \$205.4 million in 2007, \$354.7 million in 2006 and \$638.9 million in 2005. In 2007, realized gains were \$1.2 million and losses were \$4.2 million. In 2006, realized gains were \$5.3 million and losses were \$3.9 million. In 2005, realized gains were \$8.6 million and losses were \$7.7 million. At December 31, investment securities were pledged to secure public and other funds with a carrying value of \$968.6 million in 2007 and \$983.0 million in 2006.

Subsequent to year-end 2007, \$157.1 million of securities were called by the issuers, resulting in gains of approximately \$1.5 million.

At December 31, 2007, Old National had a concentration of investment securities issued by the state of Indiana and its political subdivisions with an aggregate market value of \$94.1 million, which represented 14.4% of shareholders equity. At December 31, 2006, the aggregate market value of investment securities issued by the state of Indiana and

its political subdivisions was \$79.7 million, which represented 12.4% of shareholders' equity.



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The amortized cost and fair value of the investment securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Weighted average yield is based on amortized cost.

(dollars in thousands) Maturity	2007		Weighted Average Yield	2006		Weighted Average Yield
	Amortized Cost	Fair Value		Amortized Cost	Fair Value	
<b>Available-for-sale</b>						
Within one year	\$ 147,736	\$ 146,261	3.91%	\$ 80,725	\$ 80,722	5.85%
One to five years	878,151	865,524	4.83	1,213,036	1,188,876	4.65
Five to ten years	651,104	649,564	5.47	627,966	617,653	5.06
Beyond ten years	470,379	479,292	6.09	281,082	287,912	6.23
Total	\$ 2,147,370	\$ 2,140,641	5.24%	\$ 2,202,809	\$ 2,175,163	5.01%
<b>Held-to-maturity</b>						
One to five years	\$ 126,769	\$ 124,504	4.57%	\$ 162,138	\$ 157,720	4.50%
Five to ten years						
Total	\$ 126,769	\$ 124,504	4.57%	\$ 162,138	\$ 157,720	4.50%

The following table summarizes the investment securities with unrealized losses at December 31 by aggregated major security type and length of time in a continuous unrealized loss position:

(dollars in thousands)	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>2007</b>						
<b>Available-for-Sale</b>						
U.S. Government-sponsored entities and agencies	\$ 24,993	\$ (1)	\$ 129,122	\$ (354)	\$ 154,115	\$ (355)
Mortgage-backed securities	192,984	(3,770)	642,032	(20,140)	835,016	(23,910)
States and political subdivisions	36,366	(356)	5,852	(62)	42,218	(418)
Other securities	72,423	(2,924)	60,441	(1,128)	132,864	(4,052)
Total available-for-sale	\$ 326,766	\$ (7,051)	\$ 837,447	\$ (21,684)	\$ 1,164,213	\$ (28,735)
<b>Held-to-Maturity</b>						
Mortgage-backed securities	\$	\$	\$ 105,593	\$ (2,237)	\$ 105,593	\$ (2,237)
Other securities			18,911	(28)	18,911	(28)
Total held-to-maturity	\$	\$	\$ 124,504	\$ (2,265)	\$ 124,504	\$ (2,265)

**2006****Available-for-Sale**

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U.S. Government-sponsored entities and agencies	\$ 296,478	\$ (4,241)	\$ 164,889	\$ (3,299)	\$ 461,367	\$ (7,540)
Mortgage-backed securities	651,931	(25,224)	198,804	(6,044)	850,735	(31,268)
States and political subdivisions	9,312	(91)	1,522	(22)	10,834	(113)
Other securities	55,425	(616)	83,350	(2,202)	138,775	(2,818)
Total available-for-sale	\$ 1,013,146	\$ (30,172)	\$ 448,565	\$ (11,567)	\$ 1,461,711	\$ (41,739)
<b>Held-to-Maturity</b>						
Mortgage-backed securities	\$ 78,996	\$ (2,653)	\$ 43,492	\$ (1,659)	\$ 122,488	\$ (4,312)
Other securities			35,232	(106)	35,232	(106)
Total held-to-maturity	\$ 78,996	\$ (2,653)	\$ 78,724	\$ (1,765)	\$ 157,720	\$ (4,418)

Old National does not believe any individual unrealized loss represents other-than-temporary impairment. The unrealized losses are primarily attributable to changes in interest rates and recent market events. Factors considered in evaluating the securities included whether the securities were backed by U.S. government-sponsored entities and agencies and credit quality concerns surrounding the recovery of the full principal balance. At December 31, 2007, approximately 88% of the mortgage-backed securities held by Old National were issued by U.S. government-sponsored entities and agencies. Old National has both the intent and ability to hold the securities for a time necessary to recover the amortized cost.

**Table of Contents****NOTE 4 LOANS HELD FOR SALE**

Residential loans held for sale are recorded at lower of cost or market value determined as of the balance sheet date. A portion of Old National's residential loans held for sale have been hedged using fair value hedge accounting in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The loans' carrying basis reflects the effects of the SFAS No. 133 adjustments. At December 31, 2007 and 2006, Old National had residential loans held for sale of \$13.0 million and \$16.6 million, respectively. As of December 31, 2007 and 2006, ineffectiveness related to the hedge of a portion of the residential loans held for sale as calculated in accordance with SFAS No. 133 was immaterial.

During 2007, commercial real estate loans held for investment of \$12.6 million and commercial loans of \$8.3 million were reclassified to loans held for sale and sold for \$15.6 million resulting in a write-down on loans transferred to held for sale of \$5.3 million, which was recorded as a reduction to the allowance for loan losses. At December 31, 2007, there were no loans held for sale under this arrangement.

During 2006, commercial real estate loans held for investment of \$27.4 million and commercial loans of \$1.4 million were reclassified to loans held for sale and sold for \$26.1 million resulting in a write-down on loans transferred to held for sale of \$2.8 million, which was recorded as a reduction to the allowance for loan losses. At December 31, 2006, there were no loans held for sale under this arrangement.

**NOTE 5 LOANS**

The composition of loans at December 31 by lending classification was as follows:

(dollars in thousands)	2007	2006
Commercial	\$ 1,694,736	\$ 1,629,885
Commercial real estate	1,270,408	1,386,367
Residential real estate	533,448	484,896
Consumer credit, net of unearned income	1,187,764	1,198,855
Total loans	\$ 4,686,356	\$ 4,700,003

Through its affiliate bank, Old National makes loans to clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. Old National predominately operates in the geographic market areas of Indiana, Illinois and Kentucky. Old National has no concentration of commercial loans in any single industry exceeding 10% of its portfolio.

Executive officers and directors of Old National and significant subsidiaries and their related interests are loan clients of Old National's affiliate bank in the normal course of business. An analysis of the current year activity of these loans is as follows:

(dollars in thousands)	2007
Balance, January 1	\$ 28,620
New loans	44,061
Repayments	(68,892)
Officer and director changes	3,547
Balance, December 31	\$ 7,336

**Table of Contents****NOTE 6 ALLOWANCE FOR LOAN LOSSES**

Activity in the allowance for loan losses was as follows:

(dollars in thousands)	<b>2007</b>	<b>2006</b>	<b>2005</b>
Balance, January 1,	\$ <b>67,790</b>	\$ 78,847	\$ 85,749
Additions:			
Provision charged to expense	<b>4,118</b>	7,000	23,100
Allowance of acquired bank	<b>5,699</b>		
Deductions:			
Write-downs from loans transferred to held for sale	<b>5,337</b>	2,770	5,348
Loans charged-off	<b>26,938</b>	27,944	36,140
Recoveries	<b>(11,131)</b>	(12,657)	(11,486)
Net charge-offs	<b>21,144</b>	18,057	30,002
Balance, December 31	\$ <b>56,463</b>	\$ 67,790	\$ 78,847

Individually impaired loans were as follows:

(dollars in thousands)	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Impaired loans without an allowance for loan losses allocation	\$ <b>11,278</b>	\$ 11,833
Impaired loans with an allowance for loan losses allocation	<b>19,027</b>	20,476
Total impaired loans	\$ <b>30,305</b>	\$ 32,309
Allowance for loan losses allocated to impaired loans	\$ <b>5,904</b>	\$ 7,080

For the years ended December 31, 2007 and 2006, the average balance of impaired loans was \$42.8 million and \$37.1 million, respectively, for which no interest income was recorded. No additional funds are committed to be advanced in connection with impaired loans. Loans deemed impaired are evaluated using the fair value of the underlying collateral.

Nonperforming loans were as follows:

(dollars in thousands)	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Total nonaccrual loans	\$ <b>40,816</b>	\$ 41,518
Total renegotiated loans		52
Total nonperforming loans	\$ <b>40,816</b>	\$ 41,570
Past due loans (90 days or more and still accruing)	<b>1,511</b>	2,141

Nonperforming loans includes both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Nonaccrual loans related to the St. Joseph acquisition amounted to \$10.6 million at December 31, 2007.



**Table of Contents****NOTE 7 GOODWILL AND OTHER INTANGIBLE ASSETS**

The following table shows the changes in the carrying amount of goodwill by segment for the years ended December 31, 2007 and 2006:

(dollars in thousands)	<b>Community Banking</b>	<b>Other</b>	<b>Total</b>
Balance, January 1, 2007	\$ 73,477	\$ 39,873	\$ 113,350
Goodwill acquired during the period	45,848		45,848
Balance, December 31, 2007	\$ 119,325	\$ 39,873	\$ 159,198
Balance, January 1, 2006	\$ 73,477	\$ 39,798	\$ 113,275
Adjustments to goodwill acquired in prior year		75	75
Balance, December 31, 2006	\$ 73,477	\$ 39,873	\$ 113,350

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

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

(dollars in thousands)	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
<b>2007</b>			
Amortized intangible assets:			
Core deposit	\$ 15,623	\$ (5,897)	\$ 9,726
Customer business relationships	25,553	(7,546)	18,007
Customer loan relationships	4,413	(368)	4,045
Total intangible assets	\$ 45,589	\$ (13,811)	\$ 31,778
<b>2006</b>			
Amortized intangible assets:			
Core deposit	\$ 5,574	\$ (4,615)	\$ 959
Customer business relationships	25,553	(5,699)	19,854
Total intangible assets	\$ 31,127	\$ (10,314)	\$ 20,813

Other intangible assets consist of core deposits intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated lives, generally over a period of 10 to 25 years. Old National reviews intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Old National recorded \$14.5 million of other intangibles associated with the acquisition of St. Joseph Capital Corporation in 2007. Total amortization expense associated with intangible assets was \$3.5 million in 2007, \$2.4 million in 2006 and \$2.3 million in 2005.



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Estimated amortization expense for the future years is as follows:

(dollars in thousands)	Estimated Amortization Expense
2008	\$ 3,465
2009	3,302
2010	3,118
2011	2,972
2012	2,796
Thereafter	16,125
 Total	 \$ 31,778

**NOTE 8 ASSETS HELD FOR SALE**

During 2007, Old National sold 73 financial centers with a carrying value of approximately \$65 million in connection with a series of sale-leaseback transactions with an unrelated party. See Note 19 to the consolidated financial statements for additional information about these transactions.

As of December 31, 2007, assets held for sale are summarized as follows:

(dollars in thousands)	
<b>Assets held for sale:</b>	
Land	\$ 1,210
Building and improvements	7,521
 Total	 8,731
Accumulated depreciation	(4,762)
 Assets held for sale net	 \$ 3,969

Included in assets held for sale are nine financial centers which are pending sale. Old National plans to continue occupying these properties under long-term lease arrangements.

**NOTE 9 DEPOSITS**

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2007 and 2006 was \$562.1 million and \$932.6 million, respectively. At December 31, 2007, the scheduled maturities of total time deposits were as follows:

(dollars in thousands)	
Due in 2008	\$ 1,397,316
Due in 2009	193,421
Due in 2010	115,355
Due in 2011	63,709
Due in 2012	36,090
Thereafter	256,041
SFAS 133 fair value hedge	(846)
 Total	 \$ 2,061,086





**Table of Contents****NOTE 10 SHORT-TERM BORROWINGS**

The following table presents the distribution of Old National's short-term borrowings and related weighted-average interest rates for each of the years ended December 31:

(dollars in thousands)	<b>Federal Funds Purchased</b>	<b>Repurchase Agreements</b>	<b>Other Short-term Borrowings</b>	<b>Total</b>
<b>2007</b>				
Outstanding at year-end	\$ 206,508	\$ 373,164	\$ 58,575	\$ 638,247
Average amount outstanding	86,203	368,945	6,632	461,780
Maximum amount outstanding at any month-end	225,219	456,241	58,575	
Weighted average interest rate:				
During year	4.91%	3.70%	4.54%	3.94%
End of year	3.89	2.76	4.37	3.27
<b>2006</b>				
Outstanding at year-end	\$ 19,807	\$ 285,301	\$ 7,803	\$ 312,911
Average amount outstanding	110,894	285,803	5,543	402,240
Maximum amount outstanding at any month-end	299,445	340,589	22,219	
Weighted average interest rate:				
During year	5.14%	3.51%	4.72%	3.98%
End of year	4.90	3.67	5.04	3.78

**NOTE 11 FINANCING ACTIVITIES**

The following table summarizes Old National and its subsidiaries' other borrowings at December 31:

(dollars in thousands)	<b>2007</b>	<b>2006</b>
<b>Old National Bancorp:</b>		
Medium-term notes, Series 1997 (fixed rate 3.50%) maturing June 2008	\$ 100,000	\$ 110,000
Senior unsecured notes (fixed rate 5.00%) maturing May 2010	50,000	50,000
Junior subordinated debentures (fixed rates 6.27% to 8.00% and variable rate 7.88%) maturing maturing April 2032 to March 2035	108,000	100,000
SFAS 133 fair value hedge and other basis adjustments	(1,872)	(4,549)
<b>Old National Bank:</b>		
Securities sold under agreements to repurchase (fixed rates 3.46% to 4.06%) maturing December 2010 to October 2012	74,000	74,000
Federal Home Loan Bank advances (fixed rates 4.84% to 8.34%) maturing July 2008 to January 2023	124,369	219,493
Senior unsecured bank notes (fixed rate 3.95%) maturing February 2008	50,000	50,000
Subordinated bank notes (fixed rate 6.75%) maturing October 2011	150,000	150,000
Capital lease obligation	4,427	4,461
SFAS 133 fair value hedge and other basis adjustments	(2,202)	(5,860)
Total other borrowings	\$ 656,722	\$ 747,545



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Contractual maturities of long-term debt at December 31, 2007, were as follows:

(dollars in thousands)

Due in 2008	\$ 151,037
Due in 2009	2,040
Due in 2010	99,043
Due in 2011	150,046
Due in 2012	75,688
Thereafter	182,942
SFAS 133 fair value hedge and other basis adjustments	(4,074)
 Total	 \$ 656,722

**FEDERAL HOME LOAN BANK**

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

**SUBORDINATED BANK NOTES**

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

**JUNIOR SUBORDINATED DEBENTURES**

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

Old National guarantees the payment of distributions on the trust preferred securities issued by ONB Capital Trust II. ONB Capital Trust II issued \$100 million in preferred securities in April 2002. The preferred securities have a liquidation amount of \$25 per share with a cumulative annual distribution rate of 8.0% or \$2.00 per share payable quarterly and maturing on April 15, 2032. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by ONB Capital Trust II. Old National may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole (or in part from time to time) on or after April 12, 2007. Costs associated with the issuance of these trust preferred securities totaling \$3.3 million in 2002 were capitalized and are being amortized through the maturity dates of the securities. The unamortized balance is included in other assets in the consolidated balance sheet.

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



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

**CAPITAL LEASE OBLIGATION**

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

At December 31, 2007, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)

2008	\$	371
2009		390
2010		390
2011		390
2012		390
Thereafter		11,704
Total minimum lease payments		13,635
Less amounts representing interest		9,208
Present value of net minimum lease payments	\$	4,427

**NOTE 12 INCOME TAXES**

Following is a summary of the major items comprising the differences in taxes computed at the federal statutory tax rate and as recorded in the consolidated statement of income for the years ended December 31:

(dollars in thousands)	<b>2007</b>	<b>2006</b>	<b>2005</b>
Provision at statutory rate of 35%	\$ 32,275	\$ 33,231	\$ 32,845
Tax-exempt income	(14,298)	(15,702)	(16,914)
Settlement of unrecognized tax benefit	(1,847)		
State income taxes	140		244
Other, net	1,053	(1,955)	(921)
Income tax expense	\$ 17,323	\$ 15,574	\$ 15,254
Effective tax rate	18.8%	16.4%	16.3%

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The effective tax rate was higher in 2007 compared to 2006 and 2005. The main factor for the increase in the effective tax rate was that tax-exempt income comprised a smaller percentage of total income in 2007. The provision for income taxes consisted of the following components for the years ended December 31:

(dollars in thousands)	2007	2006	2005
Income taxes currently payable			
Federal	\$ 32,732	\$ 20,195	\$ 16,176
State	216		375
Deferred income taxes related to:			
Provision for loan losses	4,443	4,132	5,265
Other, net	(20,068)	(8,753)	(6,562)
Deferred income tax benefit	(15,625)	(4,621)	(1,297)
Provision for income taxes	\$ 17,323	\$ 15,574	\$ 15,254

Significant components of net deferred tax assets (liabilities) were as follows at December 31:

(dollars in thousands)	2007	2006
<b>Deferred Tax Assets</b>		
Allowance for loan losses, net of recapture	\$ 26,159	\$ 28,206
Benefit plan accruals	2,611	1,627
AMT credit	10,752	17,730
Unrealized losses on available-for-sale investment securities	3,016	11,351
Unrealized losses on hedges	424	645
Unrealized losses on benefit plans	4,657	5,219
General business credit carryforward		6,015
Net operating loss	859	3,069
Premises and equipment	41,347	
Other, net		2,612
Total deferred tax assets	89,825	76,474
<b>Deferred Tax Liabilities</b>		
Premises and equipment		(1,312)
Accretion on investment securities	(1,299)	(1,014)
Lease receivable, net	(5,789)	(6,552)
Purchase accounting	(8,791)	(6,190)
Other, net	(634)	
Total deferred tax liabilities	(16,513)	(15,068)
Net deferred tax assets	\$ 73,312	\$ 61,406

No valuation allowance was recorded at December 31, 2007 and 2006 because Old National believes it will generate sufficient income in future years to realize deferred tax assets. Old National has a federal net operating loss carryforward at December 31, 2007 of \$1.7 million. Old National has state net operating loss carryforwards totaling \$4.6 million. If not used, the net operating loss carryforwards will begin to expire in 2021.

**Unrecognized Tax Benefits**

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



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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(dollars in thousands)	<b>2007</b>
Balance at January 1	\$ 11,002
Additions based on tax positions related to the current year	1,248
Settlements	(696)
Balance at December 31	\$ 11,554

Approximately \$7.8 million of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods. The total unrecognized tax benefits may significantly decrease based on the outcome of the audit of the 2005 tax year discussed below. The amount of any possible decrease can not be estimated at this time. The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. On August 21, 2007, the Company received a notice from the Internal Revenue Service ( IRS ) that the Joint Committee on Taxation had concluded their review of the audit for the years 2002, 2003 and 2004 and had taken no exceptions to the conclusions reached by the IRS. The IRS has informed the Company of its intent to audit tax year 2005. The Company incurred net operating losses in 2003 and 2004 that were utilized in 2005. The IRS could adjust the net operating loss carryover used on the 2005 tax return during the 2005 audit. Therefore, the 2003 and 2004 years have not been fully effectively settled. The federal statute of limitations on the 2002 year expired on December 31, 2007. The Company determined that the conclusion of the 2002, 2003 and 2004 audit, as evidenced by the IRS notice, effectively settled several items from 2002, 2003 and 2004 that the IRS notice indicated were effectively settled. It is the Company's policy to recognize interest and penalties accrued relative to unrecognized tax benefits in their respective federal or state income tax accounts. The total amount of interest and penalties recorded in the income statement for the year ended December 31, 2007 was a benefit of \$1.2 million, primarily due to settlements, and the amount accrued for interest and penalties in the balance sheet at December 31, 2007 was \$1.5 million.

**NOTE 13 EMPLOYEE BENEFIT PLANS****RETIREMENT PLAN AND RESTORATION PLAN**

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan ) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five years of employment. The freezing of the plan provides that future salary increases will not be considered. Old National's policy is to contribute at least the minimum funding requirement determined by the plan's actuary. Old National also maintains an unfunded pension restoration plan (the Restoration Plan ) which provides benefits for eligible employees that are in excess of the limits under Section 415 of the Internal Revenue Code of 1986, as amended, that apply to the Retirement Plan. The Restoration Plan is designed to comply with the requirements of ERISA. The entire cost of the plan, which was also frozen as of December 31, 2005, is supported by contributions from the Corporation.

Old National adopted the provisions of Statement of Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 123(R)* ( SFAS No. 158 ) as of December 31, 2006. SFAS No. 158 required that the company recognize the overfunded or underfunded status of its defined benefit plans as an asset or liability in the balance sheet as of this date. Any future changes in the funded status are to be recognized through comprehensive income in the year in which they occur.

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Old National uses a December 31 measurement date for its defined benefit pension plans. The following table presents the combined activity of the Company's defined benefit plans:

(dollars in thousands)	2007	2006
<b>Change in Projected Benefit Obligation</b>		
Balance at January 1	\$ 45,782	\$ 53,702
Interest cost	2,343	2,774
Benefits paid	(1,630)	(1,470)
Actuarial loss	97	382
Settlement	(4,861)	(9,606)
 Projected Benefit Obligation at December 31	 <b>41,731</b>	 45,782
 <b>Change in Plan Assets</b>		
Fair value at January 1	46,326	52,159
Actual return on plan assets	2,873	3,539
Employer contributions	933	1,704
Benefits paid	(1,630)	(1,470)
Settlement	(4,861)	(9,606)
 Fair value of Plan Assets at December 31	 <b>43,641</b>	 46,326
 <b>Funded status at December 31</b>	 <b>1,910</b>	 544
 Amounts recognized in the statement of financial position at December 31:		
Prepaid benefit cost	\$ 4,520	\$ 3,957
Accrued benefit liability	(2,610)	(3,413)
 Net amount recognized	 \$ 1,910	 \$ 544
 Amounts recognized in accumulated other comprehensive income at December 31:		
Net actuarial loss	\$ 11,642	\$ 13,047
 Total	 \$ 11,642	 \$ 13,047

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$0.6 million.

The accumulated benefit obligation and the projected benefit obligation for the defined benefit pension plans were \$41.7 million and \$45.8 million at December 31, 2007 and 2006, respectively.

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The net periodic benefit cost and its components were as follows for the years ended December 31:

(dollars in thousands)	2007	2006	2005
<b>Net Periodic Benefit Cost</b>			
Service cost	\$	\$	\$ 1,597
Interest cost	2,343	2,774	3,567
Expected return on plan assets	(3,331)	(3,963)	(3,944)
Amortization of prior service cost			(251)
Recognized actuarial loss	772	954	1,542
Net periodic benefit cost	\$ (216)	\$ (235)	\$ 2,511
Settlement cost	1,188	2,884	1,439
Curtailment gain			(1,500)
Total net periodic benefit cost	\$ 972	\$ 2,649	\$ 2,450
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income</b>			
Net actuarial loss	\$ 556	N/A	N/A
Amortization of net actuarial loss	(773)	N/A	N/A
Settlement cost	(1,188)	N/A	N/A
Total recognized in Other Comprehensive Income	\$ (1,405)	N/A	N/A
<b>Total recognized in net periodic benefit cost and other comprehensive income</b>	\$ (433)	\$ 2,649	\$ 2,450

The weighted-average assumptions used to determine the benefit obligations as of the end of the years indicated and the net periodic benefit cost for the years indicated are presented in the table below. Because the plans were frozen, increases in compensation are not considered after 2005.

	2007	2006	2005
Benefit obligations:			
Discount rate at the end of the period	5.75%	5.75%	5.50%
Net periodic benefit cost:			
Discount rate at the beginning of the period	5.75%	5.50%	6.00%
Expected return on plan assets	8.00	8.00	8.00
Rate of compensation increase	N/A	N/A	4.00

The expected long-term rate of return on assets is based on 10-year compounded trailing returns on equity and fixed income indices weighted by the typical asset allocation for the plan. This assumption is monitored on an on-going basis. The discount rate is determined based upon the Moody's AA bond rates at December 31, which Old National has historically used as the benchmark.

Old National's asset allocation of the Retirement Plan as of year-end is presented in the following table. Old National's Restoration Plan is unfunded.

Asset Category	2008 Target Allocation	2007	2006	2005
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Equity securities	40 - 70%	<b>67%</b>	62%	59%
Debt securities	30 - 60%	<b>32</b>	30	35
Cash equivalents	0 - 15%	<b>1</b>	8	6
Total		<b>100%</b>	100%	100%

The plan's assets are invested in the plan trust within the ranges specified above. Fixed income securities and cash equivalents must meet minimum rating standards. Exposure to any particular company or industry is also limited. The investment policy is reviewed annually. Equity securities included common stock of Old National in the amount of \$3.5 million (7% of total plan assets) at December 31, 2005. There was no Old National stock in the plan as of December 31, 2007 and 2006, respectively.

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As of December 31, 2007, expected future benefit payments related to Old National's defined benefit plans were as follows:

(dollars in thousands)

2008	\$ 8,920
2009	4,990
2010	4,550
2011	4,190
2012	4,640
Years 2013 - 2017	20,010

Old National does not expect to contribute any cash to the pension plans in 2008, except \$0.9 million to cover future benefit payments from the Restoration Plan.

**EMPLOYEE STOCK OWNERSHIP PLAN**

Effective January 1, 2006, the Employee Stock Ownership and Savings Plan (401k) was amended. The amended plan permits employees to participate the first month following one month of service. Old National's contributions to the plan are made in the form of Old National Bancorp stock or cash contributed to the plan for purchase of Old National Bancorp stock on the market. Old National will match 100% of participant contributions up to 6% of each participant's salary. All contributions vest immediately and plan participants may elect to diversify 2006 and all future contributions. Those participants who have attained the age of 55 may also diversify previous contributions. Effective October 1, 2006, the plan was amended to allow all participants to diversify previous contributions of Old National Bancorp stock. Participants can elect, at any time, to have dividends reinvested in the plan or have dividends be paid to the participant. In addition, Old National may contribute an amount designated at the sole discretion of the Board of Directors. Old National's Board of Directors designated no discretionary contributions in 2007, 2006 or 2005. During the years ended December 31, 2007, 2006 and 2005, the number of Old National shares allocated to the plan were 1.9 million, 2.0 million and 2.7 million, respectively. All shares owned through the plan are included in the calculation of weighted-average shares outstanding for purposes of calculating diluted and basic earnings per share. Contribution expense under the plan was \$6.4 million in 2007, \$5.1 million in 2006 and \$3.5 million in 2005.

**NOTE 14 STOCK-BASED COMPENSATION****STOCK-BASED COMPENSATION**

Under the 1999 Equity Incentive Plan, Old National is authorized to grant up to 7.6 million shares of common stock. At December 31, 2007, 6.4 million shares were outstanding under the plan, including 5.8 million stock options and 0.6 million shares of restricted stock, 0.5 million shares had been exercised or released, and 0.7 million shares were available for issuance. In addition, Old National assumed 0.1 million stock options outstanding through various mergers. Effective January 1, 2006, the Company began recording compensation expense associated with the stock options in accordance with SFAS No. 123-R, *Share-Based Payment*. Prior to January 1, 2006, the Company accounted for its stock-based compensation plans in accordance with APB Opinion No. 25 and related Interpretations, under which no compensation cost had been recognized, except with respect to the restricted stock plans. Old National adopted the fair value recognition provisions of SFAS No. 123-R using the modified prospective transition method, and, consequently, has not retroactively adjusted results from prior periods.

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The following table reflects the effect on net income and net income per share as if the fair value based method had been applied to all outstanding and unvested stock options during 2005.

(dollars in thousands, except per share data)	<b>2005</b>
Net income as reported	\$ 63,764
<b>Restricted Stock:</b>	
Add: restricted stock compensation expense included in reported net income, net of related tax effects	595
Deduct: restricted stock compensation expense determined under fair value based method for all awards, net of related tax effects	(694)
<b>Stock Options:</b>	
Deduct: stock option compensation expense determined under fair value based method for all awards, net of related tax effects	(4,314)
Proforma net income	\$ 59,351
Basic net income per share:	
As reported	\$ 0.94
Proforma	0.87
Diluted net income per share:	
As reported	\$ 0.93
Proforma	0.87

*Stock Options*

Old National recorded \$0.2 million of stock based compensation expense, net of tax, during 2007. The Company granted 0.2 million stock options during 2007 and substituted 0.1 million Old National stock options for St. Joseph stock options in connection with its acquisition of St. Joseph. Using the Black-Scholes option pricing model, the Company estimated the fair value of the stock options granted during 2007 to be \$0.5 million. The Company will expense this amount ratably over the three-year vesting period. These options expire in ten years. During 2006, the company granted 0.1 million stock options. These options expire in ten years. No options were granted in 2005. The Company plans to use shares held as treasury stock to satisfy share option exercises.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model and the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions as of grant date. No options were granted in 2005.

	<b>2007</b>	<b>2006</b>	<b>2005</b>	
Wtd-average risk-free interest rate	4.9%	4.7%		%
Expected life of option (years)	6	6		
Expected stock volatility	15.0%	19.5%		%
Expected dividend yield	4.2%	3.6%		%

During 2005, the Compensation and Management Development Committee of the Board of Directors approved acceleration of all unvested options granted in 2002 and 2003. Stock options totaling \$1.1 million were subject to the

acceleration and became immediately vested and exercisable. No expense was recognized because none of these options were in-the-money, having an exercise price greater than the then current market price of Old National's common stock. The decision to accelerate vesting of these options was made primarily to avoid recognizing the related compensation cost in future financial statements upon the adoption of SFAS No. 123R. The acceleration eliminated \$1.3 million in 2006 and \$0.1 million in 2007 of future after-tax compensation expense that would otherwise have been recognized under SFAS No. 123R.

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The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of the Company's stock as of reporting date. The total aggregate intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005, was \$0.1 million, \$0.1 million and \$0.5 million, respectively. Cash received for the exercise of options in 2007, 2006 and 2005, was \$0.1 million, \$0.7 million and \$4.4 million, respectively. As of December 31, 2007, there was \$0.5 million of unrecognized compensation cost related to nonvested stock options granted under the Plan. The remaining cost is expected to be recognized over a two year period.

Stock option activity for 2007 is as follows:

(dollars and shares in thousands)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1	5,772	\$ 20.95		
Granted	266	16.67		
Exercised	(12)	10.77		
Forfeited	(210)	20.95		
Outstanding, December 31	5,816	\$ 20.78	4.6	\$ 314.4
Options exercisable at end of year	5,495	\$ 20.92	4.4	\$ 117.1
Weighted-average fair value of options granted during the year		3.39		

*Restricted Stock*

The Company has entered into various stock award agreements with certain key officers and directors. Certain of these awards are service-based having vesting periods ranging from 12 to 36 months, and such shares are issued at the date the awards are granted allowing the participants to exercise voting rights and receive dividends during the required service periods. The Company is recording expense for the awards that are expected to vest on a straightline basis over the vesting periods.

Certain other awards have been granted with vesting periods ranging from 32 to 60 months that also include performance requirements in order for the shares to vest. At the date of grant of such awards, the Company issues shares to the participants based on the number of shares that will be awarded if certain established performance targets are achieved allowing the participants to exercise voting rights and receive dividends during the required service periods. If the established performance targets are exceeded and the service requirements are met, additional shares would be issued and vested to participants based upon the formulas included in the award contracts. Based on nonvested awards outstanding to participants at December 31, 2007, the number of shares that could ultimately vest to participants could range from 0 shares to 0.9 million shares. The Company is recording expense for these awards over the vesting periods based on the Company's current estimate of the number of shares that will vest considering the performance targets established in the award contracts and the Company's best estimate of future company performance.

Based upon the shares issued under the stock awards discussed above at December 31, 2007, the total expected unrecognized compensation expense related to nonvested shares was \$4.6 million. The Company expects that this expense will be recognized over a weighted average period of 1.61 years. The total fair value of shares vested during the year ended December 31, 2007 was \$0.6 million. The total fair value of shares vested during the year ended December 31, 2006 was \$0.1 million. No shares vested during 2005. Compensation expense, net of tax, for stock awards for the years ended December 31, 2007, 2006 and 2005 was \$0.8 million, \$(0.1) million, and \$0.4 million, respectively.





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A summary of changes in the Company's nonvested shares for the year follows. In the table below, share awards are included as granted based on the number of shares issued to participants at the date of grant as described above:

(shares in thousands)	<b>Number Outstanding</b>	<b>Weighted Average Grant-Date Fair Value</b>
Nonvested balance at January 1, 2007	<b>705</b>	<b>\$ 21.72</b>
Granted during the year	<b>179</b>	<b>18.34</b>
Vested during the year	<b>(26)</b>	<b>21.32</b>
Forfeited during the year	<b>(266)</b>	<b>22.44</b>
Nonvested balance at December 31, 2007	<b>592</b>	<b>\$ 20.38</b>

**NOTE 15 OUTSIDE DIRECTOR STOCK COMPENSATION PROGRAM**

During 2003, Old National implemented a director stock compensation program covering all outside directors. Compensation shares are earned semi-annually. A maximum of 165,375 shares of common stock is available for issuance under this program. As of December 31, 2007, Old National had issued 30,239 shares under this program.

**NOTE 16 SHAREHOLDERS EQUITY****DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN**

Old National has a dividend reinvestment and stock purchase plan under which common shares issued may be either repurchased shares or authorized and previously unissued shares. A new plan became effective on January 6, 2005, which increased the total authorized and unissued common shares reserved for issuance to 3.5 million. As of December 31, 2007, 3.5 million authorized and unissued common shares were reserved for issuance under the plan.

**SHAREHOLDER RIGHTS PLAN**

Old National has adopted a Shareholder Rights Plan whereby one right is distributed for each outstanding share of Old National's common stock. The rights become exercisable on the tenth day following a public announcement that a person has acquired or intends to acquire beneficial ownership of 20% or more of Old National's outstanding common stock. Upon exercising the rights, the holder is entitled to buy 1/100 of a share of Junior Preferred Stock at \$60, subject to adjustment, for every right held. Upon the occurrence of certain events, the rights may be redeemed by Old National at a price of \$0.01 per right.

In the event an acquiring party becomes the beneficial owner of 20% or more of Old National's outstanding shares, rights holders (other than the acquiring person) may purchase two shares of Old National common stock for the price of one share at the then market price. If Old National is acquired and is not the surviving corporation, or if Old National survives a merger but has all or part of its common stock exchanged, each rights holder will be entitled to acquire shares of the acquiring company with a value of two times the then exercise price for each right held.

**NOTE 17 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of certain financial instruments are required to be disclosed when it is practicable to estimate fair value. The following methods and assumptions were used to estimate the fair value of each type of financial instrument.

**CASH, DUE FROM BANKS, FEDERAL FUNDS SOLD AND RESELL AGREEMENTS AND MONEY MARKET INVESTMENTS**

For these instruments, the carrying amounts approximate fair value.

**INVESTMENT SECURITIES**

Fair values for investment securities, excluding Federal Home Loan Bank stock, are based on quoted market prices, if available. For securities where quoted prices are not available, fair values are estimated based on market prices of similar securities. The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.



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**RESIDENTIAL LOANS HELD FOR SALE**

The fair value of residential loans held for sale is based on market prices of similar loans. A portion of the residential loans held for sale have been hedged using fair value hedge accounting in accordance with SFAS No. 133. The loans carrying bases reflects the effects of the SFAS No. 133 adjustments.

**LOANS**

The fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

**DERIVATIVE FINANCIAL INSTRUMENTS**

The fair values of derivative financial instruments are determined based on dealer quotes and are recorded in Other assets or Accrued expenses and other liabilities .

**DEPOSITS**

The fair value of noninterest-bearing demand deposits and savings, NOW and money market deposits is the amount payable as of the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using rates currently offered for deposits with similar remaining maturities.

**SHORT-TERM BORROWINGS**

Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings generally have an original term to maturity of 30 days or less and, therefore, their carrying amount is a reasonable estimate of fair value.

**OTHER BORROWINGS**

The fair values of other borrowings are estimated using rates currently available to Old National for obligations with similar terms and remaining maturities.

**STANDBY LETTERS OF CREDIT**

Fair values for standby letters of credit are based on fees currently charged to enter into similar agreements. The fair value for standby letters of credit was recorded in Accrued expenses and other liabilities on the consolidated balance sheet in accordance with FIN 45.

**OFF-BALANCE SHEET FINANCIAL INSTRUMENTS**

Fair values for off-balance sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements, and for fixed-rate commitments, also considered the difference between current levels of interest rates and committed rates. For further information regarding the notional amounts of these financial instruments, see Notes 19 and 20.

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The estimated carrying and fair values of Old National's financial instruments as of December 31 are as follows:

(dollars in thousands)	<b>Carrying Value</b>	<b>Fair Value</b>
<b>2007</b>		
<b>Financial Assets</b>		
Cash, due from banks, federal funds sold and money market investments	\$ 263,672	\$ 263,672
Investment securities available-for-sale	2,140,641	2,140,641
Investment securities held-to-maturity	126,769	124,504
Federal Home Loan Bank stock	41,090	41,090
Residential loans held for sale	13,000	13,038
Loans, net	4,629,893	4,618,848
Accrued interest receivable	50,277	50,277
Derivative assets	16,897	16,897
<b>Financial Liabilities</b>		
Deposits	\$ 5,663,383	\$ 5,668,910
Short-term borrowings	638,247	638,247
Other borrowings	656,722	662,037
Accrued interest payable	20,567	20,567
Derivative liabilities	16,877	16,877
Standby letters of credit	427	427
<b>Off-Balance Sheet Financial Instruments</b>		
Commitments to extend credit	\$	\$ 1,227
<b>2006</b>		
<b>Financial Assets</b>		
Cash, due from banks, federal funds sold and money market investments	\$ 497,905	\$ 497,905
Investment securities available-for-sale	2,175,163	2,175,163
Investment securities held-to-maturity	162,138	157,720
Federal Home Loan Bank stock	38,809	38,809
Residential loans held for sale	16,634	16,636
Loans, net	4,632,213	4,616,848
Accrued interest receivable	53,344	53,344
Derivative assets	6,825	6,825
<b>Financial Liabilities</b>		
Deposits	\$ 6,321,494	\$ 6,303,557
Short-term borrowings	312,911	312,911
Other borrowings	747,545	752,873
Accrued interest payable	27,277	27,277
Derivative liabilities	27,183	27,183
Standby letters of credit	456	456
<b>Off-Balance Sheet Financial Instruments</b>		
Commitments to extend credit	\$	\$ 1,287



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The following table summarizes the derivative financial instruments utilized by Old National at December 31:

(dollars in thousands)	<b>Notional Amount</b>	<b>2007 Estimated Fair Value</b>		<b>Notional Amount</b>	<b>2006 Estimated Fair Value</b>	
		<b>Gain</b>	<b>Loss</b>		<b>Gain</b>	<b>Loss</b>
<b>Fair Value Derivatives</b>						
Receive fixed interest rate swaps	\$ 216,735	\$ 716	\$ (649)	\$ 719,609		\$ (20,430)
Forward mortgage loan contracts	12,935		(62)	16,266	43	
<b>Stand Alone Derivatives</b>						
Interest rate lock commitments	6,900	70		17,750	7	
Forward mortgage loan contracts	6,702		(55)	17,682	22	
<b>Matched Customer Derivatives</b>						
Customer interest rate swaps	369,109	13,929	(118)	385,575	4,269	(1,866)
Counterparty interest rate swaps	369,109	118	(13,929)	385,575	1,866	(4,269)
Customer interest rate cap & collars	3,573	53		5,065	20	(11)
Counterparty interest rate cap & collars	3,573		(53)	5,065	11	(20)
Customer commodity swaps	558		(2,011)	218	587	
Counterparty commodity swaps	558	2,011		218		(587)
<b>Total</b>	<b>\$ 989,752</b>	<b>\$ 16,897</b>	<b>\$ (16,877)</b>	<b>\$ 1,553,023</b>	<b>\$ 6,825</b>	<b>\$ (27,183)</b>

Old National utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

The notional amount of Old National's mortgage derivatives represents the dollar amount of loans which are committed and the notional amount of the customer commodity swaps represents the per period units times the fixed commodity price.

**Interest Rate Swaps Designated as Fair Value Hedges**

Interest rate swaps with notional amounts totaling \$216.7 million and \$719.6 million as of December 31, 2007 and 2006, respectively, were designated as fair value hedges of changes in the benchmark interest rate of certain fixed-rate liabilities. The notional amount of these interest rate swaps decreased \$502.9 million during 2007, primarily as a result of the Company's termination of certain hedges related to subordinated debt, brokered certificates of deposit and retail certificates of deposit having notional amounts of \$150.0 million, \$133.1 million and \$190.6 million, respectively. The basis adjustment associated with the remaining debt is amortized to the maturity date of the debt, and recorded in interest expense, with the exception of brokered certificates of deposit. Any basis adjustment associated with remaining brokered certificates of deposit is not amortized, but recorded in interest expense as the instrument pays down or matures. As of December 31, 2007, Old National paid the counterparty a weighted average variable rate of 5.07% and received a fixed rate of 4.71%. Derivative gains and losses from these fair value hedges are recognized in earnings currently along with the change in fair value of the hedged item attributable to the risk being hedged. Ineffectiveness related to these fair value hedges was not material for the years ended December 31, 2007, 2006 and

2005, and is reported in other income in the consolidated statement of income.

Mortgage Banking Derivatives

Commitments to fund certain mortgage loans (interest rate locks) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitment to fund the loans.



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Old National designates a portion of its forward commitments for the future delivery of residential mortgage loans as fair value hedges of the overall risk associated with the change in fair value of its warehouse loans awaiting sale to the secondary market. Any ineffectiveness associated with these instruments has been immaterial.

The portion of the Company's forward commitments for the future delivery of residential mortgage loans that are not designated in hedge relationships pursuant to SFAS 133, as well as the Company's interest rate lock commitments, are treated as stand-alone derivatives. The fair value of these mortgage-banking derivatives is estimated based on changes in mortgage interest rates from the date of the commitments and is reflected as a derivative asset or liability. Changes in the fair values of these mortgage-banking derivatives are included in net gain on sales of loans.

**Customer Derivatives**

Old National enters into various derivative contracts with its clients, which include interest rate swaps, caps, foreign exchange forward contracts and commodity swaps and options. Old National offsets the exposure of these derivatives by entering into an offsetting third-party contract with reputable counterparties with matching terms, which are offset through earnings. Contracts are carried at fair value with changes recorded as a component of other noninterest income. Old National does not assume any interest rate risk associated with these contracts.

**NOTE 19 COMMITMENTS AND CONTINGENCIES**

**LITIGATION**

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

**LEASES**

Old National rents certain premises and equipment under operating leases, which expire at various dates. Many of these leases require the payment of property taxes, insurance premiums, maintenance and other costs. In some cases, rentals are subject to increase in relation to a cost-of-living index.

In December 2006, Old National entered into a sale leaseback agreement for its three main buildings in downtown Evansville, Indiana. Old National sold assets with a carrying value of \$69.9 million, received approximately \$79.0 million in cash and incurred \$0.4 million of selling costs. The \$8.7 million deferred gain will be amortized over the term of the lease. The agreement requires rent payments of approximately \$6.6 million per year over the next 23 years.

During 2007, seventy-three financial centers were sold in a series of sale leaseback transactions to an unrelated party. Old National received cash proceeds of \$176.3 million, net of selling costs. The properties sold had a carrying value of \$65.3 million, resulting in a gain of \$111.1 million. In 2007, \$4.7 million of this gain was recognized, the remainder will be deferred and amortized over the term of the leases. The leases have terms of ten to twenty-four years, and Old National has the right, at its option, to extend the term of the leases for four additional successive terms of five years each, upon specified terms and conditions. Under the agreements signed in 2007, Old National is obligated to pay base rents for the properties in an aggregate annual amount of \$14.0 million in the first year.

In addition, Old National sold an office building located in Evansville, Indiana to an unrelated party in a separate transaction. This transaction resulted in cash proceeds of \$3.4 million, net of selling costs. The property had a carrying value of \$3.7 million, resulting in a loss of \$0.3 million. Old National agreed to lease back the building for a term of five years. Under the lease agreement, Old National is obligated to pay a base rent of \$0.4 million per year.

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Total rental expense was \$14.5 million in 2007, \$5.1 million in 2006 and \$5.4 million in 2005. The following is a summary of future minimum lease commitments as of December 31, 2006:

(dollars in thousands)

2008	\$ 27,986
2009	27,190
2010	26,681
2011	25,779
2012	25,015
Thereafter	320,840
 Total	 \$ 453,491

**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 \$1.195 billion and standby letters of credit of \$114.1 million at December 31, 2007. At December 31, 2006, loan commitments were \$1.165 billion, commercial letters of credit were \$40 thousand and standby letters of credit were \$121.7 million. These commitments are not reflected in the consolidated financial statements. At December 31, 2007 and 2006, the balance of the allowance for unfunded loan commitments was \$3.7 million and \$4.8 million, respectively.

At December 31, 2007 and 2006, Old National had credit extensions of \$55.6 million and \$75.4 million, respectively with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients. At December 31, 2007 and 2006, the unsecured portion was \$13.8 million and \$20.9 million respectively.

**NOTE 20 FINANCIAL GUARANTEES**

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract with the counterparties. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At December 31, 2007, the notional amount of standby letters of credit was \$114.1 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.4 million. During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap has a notional amount of \$9.6 million.

**NOTE 21 REGULATORY RESTRICTIONS****RESTRICTIONS ON CASH AND DUE FROM BANKS**

Old National's affiliate bank is required to maintain reserve balances on hand and with the Federal Reserve Bank which are noninterest bearing and unavailable for investment purposes. The reserve balances at December 31 were \$51.1 million in 2007 and \$46.3 million in 2006.

**RESTRICTIONS ON TRANSFERS FROM AFFILIATE BANK**

Regulations limit the amount of dividends an affiliate bank can declare in any year without obtaining prior regulatory approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. Regulatory approval will be needed for Old National's affiliate bank to pay dividends in 2008.

**Table of Contents****CAPITAL ADEQUACY**

Old National and its bank subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can elicit certain mandatory actions by regulators that, if undertaken, could have a direct material effect on Old National's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Old National and its bank subsidiary must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Quantitative measures established by regulation to ensure capital adequacy require Old National and its bank subsidiary to maintain minimum amounts and ratios as set forth in the following table.

At December 31, 2007, Old National and its bank subsidiary exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory notification. To be categorized as well-capitalized, the bank subsidiary must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios. There are no conditions or events since that notification that management believes have changed the institution's category.

The following table summarizes capital ratios for Old National and its bank subsidiary as of December 31:

(dollars in thousands)	Actual		For Capital Adequacy Purposes		For Well Capitalized Purposes	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>2007</b>						
Total capital to risk-weighted assets						
Old National Bancorp	\$ 731,407	13.34%	\$ 438,642	8.00%	\$ N/A	N/A%
Old National Bank	753,813	13.98	431,481	8.00	539,351	10.00
Tier 1 capital to risk-weighted assets						
Old National Bancorp	581,251	10.60	219,321	4.00	N/A	N/A
Old National Bank	603,823	11.20	215,740	4.00	323,610	6.00
Tier 1 capital to average assets						
Old National Bancorp	581,251	7.72	301,303	4.00	N/A	N/A
Old National Bank	603,823	8.10	223,630	3.00	372,717	5.00
<b>2006</b>						
Total capital to risk-weighted assets						
Old National Bancorp	\$ 824,389	14.47%	\$ 455,646	8.00%	\$ N/A	N/A%
Old National Bank	835,627	14.87	449,551	8.00	561,939	10.00
Tier 1 capital to risk-weighted assets						
Old National Bancorp	633,177	11.12	227,823	4.00	N/A	N/A
Old National Bank	645,357	11.48	224,776	4.00	337,163	6.00
Tier 1 capital to average assets						
Old National Bancorp	633,177	8.01	316,295	4.00	N/A	N/A
Old National Bank	645,357	8.25	234,734	3.00	391,223	5.00



**Table of Contents****NOTE 22 PARENT COMPANY FINANCIAL STATEMENTS**

The following are the condensed parent company only financial statements of Old National Bancorp:

**OLD NATIONAL BANCORP (PARENT COMPANY ONLY)****CONDENSED BALANCE SHEETS**

(dollars in thousands)	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Deposits in affiliate bank	\$ 56,016	\$ 56,766
Investment in affiliates:		
Banking subsidiaries	735,195	702,951
Non-banks	70,417	74,904
Other assets	80,816	65,003
<b>Total assets</b>	<b>\$ 942,444</b>	<b>\$ 899,624</b>
<b>Liabilities and Shareholders Equity</b>		
Other liabilities	\$ 33,435	\$ 1,805
Other borrowings	256,128	255,450
Shareholders equity	652,881	642,369
<b>Total liabilities and shareholders equity</b>	<b>\$ 942,444</b>	<b>\$ 899,624</b>

**OLD NATIONAL BANCORP (PARENT COMPANY ONLY)****CONDENSED STATEMENTS OF INCOME**

(dollars in thousands)	<b>Years Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Income</b>			
Dividends from affiliates	\$ 153,000	\$ 90,200	\$ 87,750
Other income	2,685	3,441	(10,646)
Other income from affiliates	29,796	31,731	31,727
<b>Total income</b>	<b>185,481</b>	<b>125,372</b>	<b>108,831</b>
<b>Expense</b>			
Interest on borrowings	18,025	16,239	16,519
Other expenses	37,608	33,438	34,454
<b>Total expense</b>	<b>55,633</b>	<b>49,677</b>	<b>50,973</b>
Income before income taxes and equity in undistributed earnings of affiliates	129,848	75,695	57,858
Income tax benefit	(10,486)	(7,849)	(3,033)
Income before equity in undistributed earnings of affiliates	140,334	83,544	60,891
Equity in undistributed earnings of affiliates	(65,444)	(4,171)	2,873
<b>Net Income</b>	<b>\$ 74,890</b>	<b>\$ 79,373</b>	<b>\$ 63,764</b>



**Table of Contents****OLD NATIONAL BANCORP (PARENT COMPANY ONLY)  
CONDENSED STATEMENT OF CASH FLOWS**

(dollars in thousands)	<b>Years Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 74,890	\$ 79,373	\$ 63,764
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	113	206	334
Stock option expense	298	729	
Restricted stock expense (benefit)	1,292	(17)	
(Gain) loss on derivatives		(197)	3,436
Net (gains) losses on sales and write-downs of premises and equipment	311	59	(12)
(Increase) decrease in other assets	(9,296)	6,551	26,892
(Decrease) increase in other liabilities	15,740	(8,123)	(11,637)
Equity in undistributed earnings of affiliates	65,444	4,171	(2,873)
Total adjustments	73,902	3,379	16,140
Net cash flows provided by operating activities	148,792	82,752	79,904
<b>Cash Flows From Investing Activities</b>			
Cash and cash equivalents of subsidiaries acquired, net	469		
Purchases and adjustments to purchase prices of subsidiaries	(78,109)	(75)	
Proceeds from sales of investment securities available-for-sale		846	33,463
Net payments from (advances to) affiliates		57,349	(2,828)
Proceeds from sales of premises and equipment	4		12
Purchases of premises and equipment	(253)	(171)	(110)
Net cash flows provided by investing activities	(77,889)	57,949	30,537
<b>Cash Flows From Financing Activities</b>			
Payments for maturities on other borrowings	(10,000)		(50,000)
Proceeds from issuance of other borrowings			50,000
Cash dividends paid	(57,782)	(55,574)	(51,690)
Common stock repurchased	(4,102)	(29,427)	(63,902)
Common stock reissued under stock option, restricted stock and stock purchase plans	231	761	5,193
Net cash flows (used in) financing activities	(71,653)	(84,240)	(110,399)
Net increase in cash and cash equivalents	(750)	56,461	42
Cash and cash equivalents at beginning of period	56,766	305	263
<b>Cash and cash equivalents at end of period</b>	<b>\$ 56,016</b>	<b>\$ 56,766</b>	<b>\$ 305</b>

**NOTE 23 SEGMENT INFORMATION**

Old National operates in two operating segments: community banking and treasury. The community banking segment serves customers in both urban and rural markets providing a wide range of financial services including commercial, real estate and consumer loans; lease financing; checking, savings, time deposits and other depository accounts; cash management services; and debit cards and other electronically accessed banking services and Internet banking.

Treasury manages investments, wholesale funding, interest rate risk, liquidity and leverage for Old National.

Additionally, treasury provides other miscellaneous capital markets products for its corporate banking clients. Other is comprised of the parent company and several smaller business units including insurance, wealth management and brokerage. It includes unallocated corporate overhead and intersegment revenue and expense eliminations.

In order to measure performance for each segment, Old National allocates capital, corporate overhead and income tax provision to each segment. Capital and corporate overhead are allocated to each segment using various methodologies, which are subject to periodic changes by management. Income taxes are allocated using the effective tax rate.

Intersegment sales and transfers are not significant.



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

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

Summarized financial information concerning segments is shown in the following table for the years ended December 31.

**SEGMENT INFORMATION**

(dollars in thousands)	<b>Community Banking</b>	<b>Treasury</b>	<b>Other</b>	<b>Total</b>
<b>2007</b>				
Net interest income	\$ 234,637	\$ (12,784)	\$ (2,662)	\$ 219,191
Provision for loan losses	3,492	626		4,118
Noninterest income	80,328	5,815	68,995	155,138
Noninterest expense	207,006	4,518	66,474	277,998
Income (loss) before income taxes	104,467	(12,113)	(141)	92,213
Income tax expense (benefit)	25,543	(8,176)	(44)	17,323
Segment profit (loss)	78,924	(3,937)	(97)	74,890
Total assets	4,968,665	2,756,899	120,562	7,846,126
<b>2006</b>				
Net interest income	\$ 233,577	\$ (15,474)	\$ (5,386)	\$ 212,717
Provision for loan losses	7,639	(639)		7,000
Noninterest income	70,084	11,428	72,408	153,920
Noninterest expense	198,817	2,610	63,263	264,690
Income (loss) before income taxes	97,205	(6,017)	3,759	94,947
Income tax expense (benefit)	22,949	(8,528)	1,153	15,574
Segment profit (loss)	74,256	2,511	2,606	79,373
Total assets	4,932,483	3,089,101	127,931	8,149,515
<b>2005</b>				
Net interest income	\$ 257,898	\$ (24,777)	\$ (13,969)	\$ 219,152
Provision for loan losses	23,212	(112)		23,100
Noninterest income	73,648	6,031	81,923	161,602
Noninterest expense	196,983	4,644	62,184	263,811
Income (loss) before income taxes and discontinued operations	111,351	(23,278)	5,770	93,843
Income tax expense (benefit)	30,035	(16,596)	1,815	15,254
Loss from discontinued operations, net of income tax expense			(14,825)	(14,825)
Segment profit (loss)	81,316	(6,682)	(10,870)	63,764
Total assets	5,199,243	3,074,379	218,400	8,492,022



**Table of Contents****NOTE 24 INTERIM FINANCIAL DATA (UNAUDITED)**

The following table details the quarterly results of operations for the years ended December 31, 2007 and 2006.

**INTERIM FINANCIAL DATA**

(unaudited, dollars and shares in thousands, except per share data)	Quarters Ended 2007				Quarters Ended 2006			
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
Interest income	\$ 111,190	\$ 115,948	\$ 117,918	\$ 116,312	\$ 114,402	\$ 114,001	\$ 113,711	\$ 109,599
Interest expense	53,360	60,730	63,577	64,510	62,730	61,693	59,313	55,260
Net interest income	57,830	55,218	54,341	51,802	51,672	52,308	54,398	54,339
Provision for loan losses	1,673			2,445			3,500	3,500
Noninterest income	44,071	37,571	38,739	34,757	37,681	36,563	36,807	42,869
Noninterest expense	71,036	65,495	68,434	73,033	69,641	62,872	63,690	68,487
Income before income taxes	29,192	27,294	24,646	11,081	19,712	25,999	24,015	25,221
Income tax expense	7,207	4,730	5,095	291	2,209	4,985	3,828	4,552
Net income	\$ 21,985	\$ 22,564	\$ 19,551	\$ 10,790	\$ 17,503	\$ 21,014	\$ 20,187	\$ 20,669
Net income per share :								
Basic	\$ 0.33	\$ 0.35	\$ 0.30	\$ 0.16	\$ 0.27	\$ 0.32	\$ 0.30	\$ 0.31
Diluted	0.34	0.34	0.30	0.16	0.27	0.32	0.30	0.31
Average shares								
Basic	65,607	65,601	65,723	65,806	65,797	65,823	66,283	67,016
Diluted	65,707	65,658	65,804	65,863	65,868	65,853	66,353	67,317

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

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

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

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

Changes in Internal Control over Financial Reporting. There were no changes in Old National's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, Old National's internal control over financial reporting. Refer to Item 8 for Management's Report on Internal Control over Financial Reporting.

**ITEM 9B. OTHER INFORMATION**

None.

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**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2007. The applicable information appearing in the Proxy Statement for the 2008 annual meeting is incorporated by reference.

Old National has adopted a code of ethics that applies to Old National's principal executive officer, principal financial officer and principal accounting officer. The text of the code of ethics is available on Old National's Internet website at [www.oldnational.com](http://www.oldnational.com) or in print to any shareholder who requests it. Old National intends to post information regarding any amendments to, or waivers from, its code of ethics on its Internet website.

**ITEM 11. EXECUTIVE COMPENSATION**

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2007. The applicable information appearing in our Proxy Statement for the 2008 annual meeting is incorporated by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

This information is omitted from this report, (with the exception of the Equity Compensation Plan Information, which is reported in Item 5 of this report and is incorporated herein by reference) pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2007. The applicable information appearing in the Proxy Statement for the 2008 annual meeting is incorporated by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2007. The applicable information appearing in the Proxy Statement for the 2008 annual meeting is incorporated by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the Commission its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2007. The applicable information appearing in the Proxy Statement for the 2008 annual meeting is incorporated by reference.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

1. Financial Statements:

The following consolidated financial statements of the registrant and its subsidiaries are filed as part of this document under Item 8. Financial Statements and Supplementary Data.

Reports of Independent Registered Public Accounting Firms

Consolidated Balance Sheets December 31, 2007 and 2006

Consolidated Statements of Income Years Ended December 31, 2007, 2006 and 2005

Consolidated Statements of Changes in Shareholders' Equity Years Ended December 31, 2007, 2006 and 2005

Consolidated Statements of Cash Flows Years Ended December 31, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

The schedules for Old National and its subsidiaries are omitted because of the absence of conditions under which they are required, or because the information is set forth in the consolidated financial statements or the notes thereto.

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



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Exhibit  
Number

- 4.4 First Indenture Supplement dated as of May 20, 2005, between Old National and J.P. Morgan Trust Company, as trustee, providing for the issuance of its 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).
- 4.5 Form of 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).
- 10 Material contracts
- (a) Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(a) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*
  - (b) Second Amendment to the Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(b) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*
  - (c) 2005 Directors Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(c) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*
  - (d) Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(d) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*
  - (e) Second Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(e) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*
  - (f) Third Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(f) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*
  - (g) 2005 Executive Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(g) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).\*
  - (h) Summary of Old National Bancorp's Outside Director Compensation Program (incorporated by reference to Old National's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).\*
  - (i)



Old National Bancorp Short-Term Incentive Compensation Plan (incorporated by reference to Appendix II of Old National's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 16, 2005).\*

- (j) Severance Agreement, between Old National and Robert G. Jones (incorporated by reference to Exhibit 10(a) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2005).\*
- (k) Form of Severance Agreement for Michael R. Hinton, Annette W. Hudgions, Daryl D. Moore and Christopher A. Wolking, as amended (incorporated by reference to Exhibit 10(b) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2005).\*

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- (l) Release and Separation agreement between Old National and Michael R. Hinton (incorporated by reference to Exhibit 10.12 of Old National's Report on Form 10-Q for the quarter ended June 30, 2006).\*
- (m) Form of Change of Control Agreement for Robert G. Jones, Annette W. Hudgions, Daryl D. Moore and Christopher A. Wolking, as amended (incorporated by reference to Exhibit 10(c) of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 4, 2005).\*
- (n) Old National Bancorp 1999 Equity Incentive Plan (incorporated by reference to Old National's Form S-8 filed on July 20, 2001).\*
- (o) First Amendment to the Old National Bancorp 1999 Equity Incentive Plan (incorporated by reference to Exhibit 10(f) of Old National's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).\*
- (p) Form of 2004 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(g) of Old National's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).\*
- (q) Form of 2005 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(r) of Old National's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).\*
- (r) Form of Executive Stock Option Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(h) of Old National's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).\*
- (s) Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National's Registration Statement on Form S-3, Registration No. 333-120545 filed with the Securities and Exchange Commission on November 16, 2004).
- (t) Form of 2006 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).\*
- (u) Form of 2006 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).\*
- (v) Form of 2006 Non-qualified Stock Option Agreement (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).\*
- (w) Form of 2007 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(w) of Old National's Annual Report on Form 10-K for the year ended December 31, 2006).\*
- (x)

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

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

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

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

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

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- (al) Purchase and Sale Agreement dated October 19, 2007, by and among Old National Bank, American National Trust and Investment Management Company, ONB Traditional Portfolio Landlord, LLC, ONB Site 3 Landlord, LLC, ONB Site Landlord 4, LLC, ONB Site Landlord 6, LLC, ONB Site Landlord 14, LLC, ONB Site Landlord 15, LLC, ONB Site Landlord 17, LLC, ONB Site Landlord 19, LLC, ONB Site Landlord 20, LLC, ONB Site Landlord 25, LLC, ONB Site Landlord 26, LLC, ONB Site Landlord 27, LLC, ONB Site Landlord 29, LLC, ONB Site Landlord 33, LLC, ONB Site Landlord 35, LLC, ONB Site Landlord 36, LLC, ONB Site Landlord 37, LLC, ONB Site Landlord 41, LLC, ONB Site Landlord 43, LLC, ONB Site Landlord 44, LLC, ONB Site Landlord 45, LLC, ONB Site Landlord 47, LLC, ONB Site Landlord 48, LLC and ONB Site Landlord 57, LLC (incorporated by reference to Exhibit 99.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2007).
- (am) Form of Lease Agreement dated October 19, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2007).
- (an) Purchase and Sale Agreement dated December 27, 2007, by and among Old National Bank, ONB Traditional Portfolio Landlord, LLC, ONB Site 1 Landlord, LLC, ONB Site 8 Landlord, LLC, ONB Site 9 Landlord, LLC, ONB Site 38 Landlord, LLC, and ONB Site 42 Landlord, LLC (as incorporated by reference to Exhibit 99.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 31, 2007).
- (ao) Form of Lease Agreement dated December 27, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (as incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 31, 2007).
- (ap) Form of 2008 Non-qualified Stock Option Award Agreement (incorporated by reference to Exhibit 99.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).\*
- (aq) Form of 2008 Performance-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).\*
- (ar) Form of 2008 Service-Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 99.3 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).\*
- 21 Subsidiaries of Old National Bancorp
- 23.1 Consent of PricewaterhouseCoopers LLP
- 23.2 Consent of Crowe Chizek and Company LLC
- 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.
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\* Management  
contract or  
compensatory  
plan or  
arrangement

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Old National has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OLD NATIONAL BANCORP

By: /s/ Robert G. Jones

Date: February 27, 2008

Robert G. Jones,  
President and Chief Executive  
Officer  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 27, 2008, by the following persons on behalf of Old National and in the capacities indicated.

By: /s/ Joseph D. Barnette, Jr.

Joseph D. Barnette, Jr., Director

By: /s/ Alan W. Braun

Alan W. Braun, Director

By: /s/ Larry E. Dunigan

Larry E. Dunigan,  
Chairman of the Board of Directors

By: /s/ Arthur H. McElwee Jr.

Arthur H. McElwee Jr., Director

By: /s/ Niel C. Ellerbrook

Niel C. Ellerbrook, Director

By: /s/ Andrew E. Goebel

Andrew E. Goebel, Director

By: /s/ Phelps L. Lambert

Phelps L. Lambert, Director

By: /s/ Robert G. Jones

Robert G. Jones,  
President and Chief Executive Officer  
(Principal Executive Officer)



By: /s/ Marjorie Z. Soyugenc

Marjorie Z. Soyugenc, Director

By: /s/ Kelly N. Stanley

Kelly N. Stanley, Director

By: /s/ Charles D. Storms

Charles D. Storms, Director

By: /s/ Christopher A. Wolking

Christopher A. Wolking  
Senior Executive Vice President and Chief  
Financial Officer (Principal Financial Officer)

By: /s/ Joan M. Kissel

Joan M. Kissel  
Vice President and Corporate Controller  
(Principal Accounting Officer)

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