FIRST MIDWEST BANCORP INC
Form 10-Q
October 28, 2011

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

FORM 10-Q
(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2011

or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _________ to __________.

Commission File Number 0-10967

FIRST MIDWEST BANCORP, INC.
(Exact name of Registrant as specified in its charter)

Delaware	36-3161078
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

One Pierce Place, Suite 1500
Itasca, Illinois 60143-9768
(Address of principal executive offices) (zip code)

Registrant’s telephone number, including area code: (630) 875-7450

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 [X] No [ ].

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ].

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ].

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

As of October 28, 2011, there were 74,491,727 shares of $.01 par value common stock outstanding.

1

FIRST MIDWEST BANCORP, INC.

FORM 10-Q

TABLE OF CONTENTS

		Page
Part I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Statements of Financial Condition	6
	Condensed Consolidated Statements of Income	7
	Consolidated Statements of Comprehensive Income	8
	Consolidated Statements of Changes in Stockholders' Equity	9
	Condensed Consolidated Statements of Cash Flows	10
	Notes to Condensed Consolidated Financial Statements	11
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	42
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	72
Item 4.	Controls and Procedures	73
Part II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	74
Item 1A.	Risk Factors	74
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	75
Item 3.	Defaults Upon Senior Securities	75
Item 4.	Removed and Reserved	75
Item 5.	Other Information	75
Item 6.	Exhibits	76

GLOSSARY OF TERMS

First Midwest Bancorp, Inc. provides the following list of acronyms as a tool for the reader. The acronyms identified below are used in the Notes to Condensed Consolidated Financial Statements and in Management's Discussion and Analysis of Financial Condition & Results of Operations.

ALCO:	Asset Liability Committee
ATM:	automated teller machine
Bank:	First Midwest Bank (one of the Company's two wholly owned subsidiaries)
BOLI:	Bank-owned life insurance
CDOs:	collateralized debt obligations
CMOs:	collateralized mortgage obligations
Code:	the Code of Ethics and Standards of Conduct of First Midwest Bancorp, Inc.
Common Stock:	shares of common stock of First Midwest Bancorp, Inc. $0.01 par value per share, which are traded on the Nasdaq Stock Market under the symbol "FMBI"
Company:	First Midwest Bancorp, Inc.
CPP:	Capital Purchase Program enacted under TARP and the Emergency Economic Stabilization Act of 2008
CSV:	cash surrender value
Dodd-Frank Act:	the Dodd-Frank Wall Street Reform and Consumer Protection Act
FASB:	Financial Accounting Standards Board
FDIC:	Federal Deposit Insurance Corporation
Federal Reserve:	Board of Governors of the Federal Reserve system
FHLB:	Federal Home Loan Bank
GAAP:	U.S. generally accepted accounting principles
HAMP:	U.S. Department of the Treasury Home Affordable Modification Program
LIBOR:	London Interbank Offered Rate
NSF:	non-sufficient-funds
OREO:	Other real estate owned, or properties acquired through foreclosure in partial or total satisfaction of certain loans as a result of borrower defaults
OTTI:	other-than-temporary impairment
PSLRA:	Private Securities Litigation Reform Act of 1995
RWA:	risk-weighted assets, as defined in federal regulations
SEC:	U.S. Securities and Exchange Commission
TARP:	Troubled Asset Relief Program
TDR:	Troubled Debt Restructurings
Treasury:	U.S. Department of the Treasury
VIE:	variable interest entity

First Midwest Bancorp, Inc. (the "Company", "we", or "our") is a bank holding company headquartered in the Chicago suburb of Itasca, Illinois with operations throughout the greater Chicago metropolitan area as well as central and western Illinois and eastern Iowa. Our principal subsidiary is First Midwest Bank, which provides a broad range of commercial and retail banking services to consumer, commercial and industrial, and public or governmental customers. We are committed to meeting the financial needs of the people and businesses in the communities where we live and work by providing customized banking solutions, quality products, and innovative services that fulfill those financial needs.

AVAILABLE INFORMATION

We file annual, quarterly, and current reports; proxy statements; and other information with the U.S. Securities and Exchange Commission ("SEC"), and we make this information available free of charge on or through the investor relations section of our web site at www.firstmidwest.com/aboutinvestor_overview.asp. You may read and copy materials we file with the SEC from its Public Reference Room at 100 F. Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The following documents are also posted on our web site or are available in print upon the request of any stockholder to our Corporate Secretary:

- Certificate of Incorporation,
- Company By-laws,
- Charters for our Audit, Compensation, and Nominating and Corporate Governance Committees,
- Related Person Transaction Policies and Procedures,
- Corporate Governance Guidelines,
- Code of Ethics and Standards of Conduct (the "Code"), which governs our directors, officers, and employees,
- Code of Ethics for Senior Financial Officers, and
- Luxury Policy.

Within the time period required by the SEC and the Nasdaq Stock Market, we will post on our web site any amendment to the Code and any waiver applicable to any executive officer, director, or senior financial officer (as defined in the Code). In addition, our web site includes information concerning purchases and sales of our securities by our executive officers and directors. The Company's accounting and reporting policies conform to U.S. generally accepted accounting principles ("GAAP") and general practice within the banking industry. We post on our website any disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast, or by similar means from time to time.

Our Corporate Secretary can be contacted by writing to First Midwest Bancorp, Inc., One Pierce Place, Itasca, Illinois 60143, Attn: Corporate Secretary. The Company's Investor Relations Department can be contacted by telephone at (630) 875-7533 or by e-mail at investor.relations@firstmidwest.com.

CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

We include or incorporate by reference in this Quarterly Report on Form 10-Q, and from time to time our management may make, statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not historical facts, but instead represent only management's beliefs regarding future events, many of which, by their nature, are inherently

uncertain and outside our control. Although we believe the expectations reflected in any forward-looking statements are reasonable, it is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in such statements. In some cases, you can identify these statements by forward-looking words, such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “predict,” “probable,” “potential,” or “continue,” and the negative of these terms and other comparable terminology. We caution you not to place undue reliance on forward-looking statements, which speak only as of the date of this report, or when made.

Forward-looking statements are subject to known and unknown risks, uncertainties, and assumptions and may contain projections relating to our future financial performance including our growth strategies and anticipated trends in our business. For a detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements, you should refer to our Annual Report on Form 10-K for the year ended December 31, 2010 and the sections entitled “Risk Factors” in Part II Item 1A of this report and “Management’s Discussion and Analysis of Results of Operations,” as well as our subsequent periodic and current reports filed with the SEC. However,

these risks and uncertainties are not exhaustive. Other sections of this report describe additional factors that could adversely impact our business and financial performance.

Since mid-2007 the financial services industry and the securities markets in general have been materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. The overall loss of investor confidence has brought a new level of risk to financial institutions in addition to the risks normally associated with competition and free market economies. The Company has attempted to list those risks in Part I, Item 1A, “Risk Factors,” in its 2010 Annual Report on Form 10-K and in Part II, Item 1A, “Risk Factors,” of this Quarterly Report on Form 10-Q and considers them as it makes disclosures regarding forward-looking statements. Nevertheless, given the uncertain economic times, new risks and uncertainties may emerge quickly and unpredictably, and it is not possible to predict all risks and uncertainties. We cannot assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We are under no duty to update any of these forward-looking statements after the date of this report to conform our prior statements to actual results or revised expectations, and we do not intend to do so.

PART 1. FINANCIAL INFORMATION (Unaudited)

ITEM 1. FINANCIAL STATEMENTS

FIRST MIDWEST BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Amounts in thousands, except per share data)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	$ 116,003	$ 102,495
Interest-bearing deposits in other banks	946,330	483,281
Trading securities, at fair value	13,308	15,282
Securities available-for-sale, at fair value	970,430	1,057,802
Securities held-to-maturity, at amortized cost	74,375	81,320
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	58,187	61,338
Loans, excluding covered loans	5,104,494	5,100,560
Covered loans	289,747	371,729
Allowance for loan losses	(128,791)	(142,572)
Net loans	5,265,450	5,329,717
Other real estate owned (“OREO”), excluding covered OREO	23,863	31,069
Covered OREO	21,594	22,370
Federal Deposit Insurance Corporation (“FDIC”) indemnification asset	63,508	95,899
Premises, furniture, and equipment	132,425	140,907
Accrued interest receivable	31,047	29,953
Investment in bank-owned life insurance (“BOLI”)	205,886	197,644
Goodwill and other intangible assets	283,163	286,033
Other assets	174,605	203,192
Total assets	$ 8,380,174	$ 8,138,302
Liabilities		
Noninterest-bearing deposits	$ 1,634,623	$ 1,329,505
Interest-bearing deposits	4,991,985	5,181,971
Total deposits	6,626,608	6,511,476
Borrowed funds	386,429	303,974
Subordinated debt	137,751	137,744
Accrued interest payable and other liabilities	76,953	73,063
Total liabilities	7,227,741	7,026,257
Stockholders’ Equity		
Preferred stock	191,393	190,882
Common stock	858	858
Additional paid-in capital	425,647	437,550
Retained earnings	807,857	787,678
Accumulated other comprehensive loss, net of tax	(11,413)	(27,739)
Treasury stock, at cost	(261,909)	(277,184)
Total stockholders’ equity	1,152,433	1,112,045
Total liabilities and stockholders’ equity	$ 8,380,174	$ 8,138,302

	September 30, 2011		December 31, 2010	
	Preferred Shares	Common Shares	Preferred Shares	Common Shares
Par Value	None	$ 0.01	None	$ 0.01
Shares authorized	1,000	100,000	1,000	100,000
Shares issued	193	85,787	193	85,787
Shares outstanding	193	74,485	193	74,096
Treasury shares	-	11,302	-	11,691

See accompanying notes to unaudited condensed consolidated financial statements.

FIRST MIDWEST BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share data)
(Unaudited)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest Income				
Loans	$ 64,085	$ 65,416	$ 190,091	$ 195,335
Investment securities	8,633	11,920	28,346	39,571
Covered loans	6,640	4,294	22,117	9,854
Federal funds sold and other short-term investments	817	708	2,200	1,631
Total interest income	80,175	82,338	242,754	246,391
Interest Expense				
Deposits	6,654	9,049	21,294	29,220
Borrowed funds	706	797	2,073	2,556
Subordinated debt	2,280	2,279	6,845	6,845
Total interest expense	9,640	12,125	30,212	38,621
Net interest income	70,535	70,213	212,542	207,770
Provision for loan losses	20,425	33,576	58,680	73,452
Net interest income after provision for loan losses	50,110	36,637	153,862	134,318
Noninterest Income				
Service charges on deposit accounts	10,215	9,249	27,922	26,682
Trust and investment advisory fees	3,946	3,728	12,180	11,023
Other service charges, commissions, and fees	5,325	4,932	15,601	13,732
Card-based fees	4,931	4,547	14,622	12,937
BOLI income	1,479	267	1,990	864
Securities gains, net (reclassified from other comprehensive income)	449	6,376	2,520	10,554
Gain on FDIC-assisted transaction	-	-	-	4,303
Other	(1,754)	1,654	467	2,289
Total noninterest income	24,591	30,753	75,302	82,384
Noninterest Expense				
Salaries and wages	22,957	24,562	74,115	67,844
Employee benefits	5,930	5,364	18,553	15,506
OREO expense, net	4,174	9,577	13,328	32,214
Net occupancy and equipment expense	8,157	8,326	25,272	24,302
Technology and related costs	2,709	2,593	8,029	7,861
Professional services	7,571	6,187	18,330	18,379
FDIC premiums	1,799	2,835	6,232	7,913
Other expenses	10,584	9,333	30,568	27,686
Total noninterest expense	63,881	68,777	194,427	201,705
Income (loss) before income tax expense (benefit)	10,820	(1,387)	34,737	14,997

Income tax expense (benefit)		1,704		(3,972)		4,575		(3,478)
Net income		9,116		2,585		30,162		18,475
Preferred dividends and accretion on preferred stock		(2,586)		(2,575)		(7,749)		(7,720)
Net income applicable to non-vested restricted shares		(96)		1		(338)		(145)
Net income applicable to common shares	$	6,434	$	11	$	22,075	$	10,610
Per Common Share Data								
Basic earnings per common share	$	0.09	$	0.00	$	0.30	$	0.15
Diluted earnings per common share	$	0.09	$	0.00	$	0.30	$	0.15
Dividends declared per common share	$	0.01	$	0.01	$	0.03	$	0.03
Weighted-average common shares outstanding		73,361		73,072		73,258		72,199
Weighted-average diluted common shares outstanding		73,361		73,072		73,258		72,199

See accompanying notes to unaudited condensed consolidated financial statements.

FIRST MIDWEST BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	$ 9,116	$ 2,585	$ 30,162	$ 18,475
Available-for-sale securities				
Unrealized holding gains:				
Before tax	6,902	12,290	29,288	26,053
Tax effect	(2,711)	(4,801)	(11,473)	(10,152)
Net of tax	4,191	7,489	17,815	15,901
Less: reclassification of net gains included in net income:				
Before tax	449	6,376	2,520	10,554
Tax effect	(184)	(2,487)	(1,031)	(4,116)
Net of tax	265	3,889	1,489	6,438
Net unrealized holding gains	3,926	3,600	16,326	9,463
Total other comprehensive income	3,926	3,600	16,326	9,463
Comprehensive income	$ 13,042	$ 6,185	$ 46,488	$ 27,938

See accompanying notes to unaudited condensed consolidated financial statements.

FIRST MIDWEST BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Amounts in thousands, except per share data)
(Unaudited)

	Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at January 1, 2010	54,793	$ 190,233	$ 670	$ 252,322	$ 810,626	$ (18,666)	$ (293,664)	$ 941,521
Comprehensive income					18,475	9,463		27,938
Common dividends declared ($0.03 per common share)	-	-	-	-	(2,224)	-	-	(2,224)
Preferred dividends declared ($37.50 per preferred share)	-	-	-	-	(7,237)	-	-	(7,237)
Accretion on preferred stock	-	483	-	-	(483)	-	-	-
Issuance of common stock	18,818	-	188	195,847	-	-	-	196,035
Share-based compensation expense	-	-	-	4,248	-	-	-	4,248
Restricted stock activity	451	-	-	(15,574)	-	-	15,357	(217)
Treasury stock purchased for benefit plans	(5)	-	-	(69)	-	-	64	(5)
Balance at September 30, 2010	74,057	$ 190,716	$ 858	$ 436,774	$ 819,157	$ (9,203)	$ (278,243)	$ 1,160,059
Balance at January 1, 2011	74,096	$ 190,882	$ 858	$ 437,550	$ 787,678	$ (27,739)	$ (277,184)	$ 1,112,045
Comprehensive income					30,162	16,326		46,488
Common dividends declared ($0.03 per common share)	-	-	-	-	(2,234)	-	-	(2,234)
Preferred dividends declared	-	-	-	-	(7,238)	-	-	(7,238)

($37.50 per preferred share)								
Accretion on preferred stock	-	511	-	-	(511)	-	-	-
Share-based compensation expense	-	-	-	5,138	-	-	-	5,138
Restricted stock activity	395	-	-	(16,972)	-	-	15,220	(1,752)
Treasury stock purchased for benefit plans	(6)	-	-	(69)	-	-	55	(14)
Balance at September 30, 2011	74,485	$ 191,393	$ 858	$ 425,647	$ 807,857	$ (11,413)	$ (261,909)	$ 1,152,433

See accompanying notes to unaudited condensed consolidated financial statements.

FIRST MIDWEST BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
Net cash provided by operating activities	$ 140,884	$ 141,375
Investing Activities		
Proceeds from maturities, repayments, and calls of securities available-for-sale	201,613	168,981
Proceeds from sales of securities available-for-sale	177,456	290,389
Purchases of securities available-for-sale	(269,786)	(157,691)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	37,275	61,548
Purchases of securities held-to-maturity	(30,330)	(58,047)
Redemption (purchase) of Federal Reserve Bank stock	3,151	(3,000)
Net increase in loans	(228)	(27,345)
Proceeds from claims on BOLI	2,588	160
Proceeds from sales of OREO	27,071	40,107
Proceeds from sales of premises, furniture, and equipment	5,535	30
Purchases of premises, furniture, and equipment	(5,757)	(9,991)
Net cash proceeds received in FDIC-assisted transactions	-	122,329
Net cash provided by investing activities	148,588	427,470
Financing Activities		
Net increase in deposit accounts	115,132	245,859
Net increase (decrease) in borrowed funds	82,455	(392,363)
Proceeds from the issuance of common stock	-	196,035
Cash dividends paid	(9,468)	(9,268)
Restricted stock activity	(1,117)	(352)
Excess tax benefit (expense) related to share-based compensation	83	(190)
Net cash provided by financing activities	187,085	39,721
Net increase in cash and cash equivalents	476,557	608,566
Cash and cash equivalents at beginning of period	585,776	127,379
Cash and cash equivalents at end of period	$ 1,062,333	$ 735,945
Supplemental Disclosures:		
Non-cash transfers of loans to OREO	$ 28,191	$ 67,846
Non-cash transfer of loans held-for-investment to loans held-for-sale	10,015	-
Non-cash transfer of non-performing loans for performing loans	-	19,088
Non-cash transfer of OREO to premises, furniture, and equipment	841	9,455
Dividends declared but unpaid	746	742

See accompanying notes to unaudited condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited condensed consolidated interim financial statements of First Midwest Bancorp, Inc. (the "Company"), a Delaware corporation, have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include certain information and footnote disclosures required by U.S. generally accepted accounting principles ("GAAP") for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company's 2010 Annual Report on Form 10-K ("2010 10-K").

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with GAAP and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the quarter and nine-month periods ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Certain reclassifications have been made to prior periods to conform to the current period presentation.

In third quarter 2010, the Company acquired the majority of the assets and assumed the deposits of a former bank in an FDIC-assisted transaction. The fair values initially assigned to the assets acquired and liabilities assumed were preliminary and subject to refinement for up to one year after the closing date of the acquisition as new information relative to closing date fair values became available. During second quarter 2011, the Company obtained specific information (including the completion of appraisals or other valuations) relating to the acquisition-date value of certain assets and liabilities acquired and finalized its purchase price allocation, which required an adjustment to those assets and liabilities and to goodwill. After considering this additional information, the estimated fair value of covered loans decreased $2.9 million, covered OREO decreased $7.3 million, the FDIC indemnification asset increased $6.9 million, and accrued interest payable and other liabilities decreased $8.7 million from that originally reported in the quarter ended September 30, 2010. These revised estimates resulted in a $5.4 million decrease in goodwill and other intangible assets. In accordance with accounting guidance applicable to business combinations, these adjustments were recognized as if they had happened as of the acquisition date.

GAAP requires management to make certain estimates and assumptions. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Principles of Consolidation - The condensed consolidated financial statements include the accounts and results of operations of the Company and its subsidiaries after elimination of all significant intercompany accounts and transactions.

The Company owns an interest in certain variable interest entities ("VIE"s) as described in Note 22, "Variable Interest Entities," contained in the Company's 2010 10-K. A VIE is a partnership, limited liability company, trust, or other legal entity that does not have sufficient equity to finance its activities without additional subordinated financial support from other parties, or whose investors lack certain characteristics associated with owning a controlling financial interest. The VIEs are not consolidated in the Company's financial statements since the Company is not the primary beneficiary of any of the VIEs.

The accounting policies related to loans and the allowance for credit losses are presented below. For a summary of all other significant accounting policies, please refer to Note 1, "Summary of Significant Accounting Policies," contained in the Company's 2010 10-K.

Loans - Loans are carried at the principal amount outstanding, including certain net deferred loan origination fees. Loans held-for-sale are carried at the lower of aggregate cost or fair value and included in other assets in the Condensed Consolidated Statements of Condition. Interest income on loans is accrued based on principal amounts outstanding. Loan and lease origination fees, fees for commitments that are expected to be exercised, and certain direct loan origination costs are deferred and the net amount amortized over the estimated life of the related loans or commitments as a yield adjustment. Fees related to standby letters of credit, whose ultimate exercise is remote, are amortized into fee income over the estimated life of the commitment. Other credit-related fees are recognized as fee income when earned.

Purchased Impaired Loans - Purchased impaired loans are recorded at their estimated fair values on the respective purchase dates and are accounted for prospectively based on expected cash flows in accordance with applicable authoritative accounting guidance. No allowance for credit losses is recorded on these loans at the acquisition date. In determining the acquisition date fair value of purchased impaired loans, and in subsequent accounting, the Company generally aggregates

purchased consumer loans and certain smaller balance commercial loans into pools of loans with common risk characteristics, such as delinquency status, credit score, and internal risk rating. Larger balance commercial loans are usually accounted for on an individual basis. Expected future cash flows in excess of the fair value of loans at the purchase date ("accretable yield") are recorded as interest income over the life of the loans if the timing and amount of the future cash flows can be reasonably estimated. The non-accretable yield represents estimated losses in the portfolio and is equal to the difference between contractually required payments and the cash flows expected to be collected at acquisition.

Subsequent to the purchase date, increases in cash flows for purchased impaired loans over those expected at the purchase date are recognized as interest income prospectively. The present value of any decreases in expected cash flows after the purchase date is recognized by recording a charge-off through the allowance for loan losses.

Non-accrual loans - Generally, commercial loans and loans secured by real estate are placed on non-accrual status: (i) when either principal or interest payments become 90 days or more past due based on contractual terms unless the loan is sufficiently collateralized such that full repayment of both principal and interest is expected and is in the process of collection within a reasonable period; or (ii) when an individual analysis of a borrower's creditworthiness indicates a credit should be placed on non-accrual status whether or not the loan is 90 days or more past due. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for loan losses. Both principal and interest payments are applied to the principal on the loan. Future interest income may only be recorded on a cash basis after recovery of principal is reasonably assured. Non-accrual loans are returned to accrual status when the financial position of the borrower and other relevant factors indicate there is no longer doubt that the Company will collect all principal and interest due.

Commercial loans and loans secured by real estate are generally charged-off when deemed uncollectible. A loss is recorded at that time if the net realizable value can be quantified and it is less than the associated principal and interest outstanding. Consumer loans that are not secured by real estate are subject to mandatory charge-off at a specified delinquency date and are usually not classified as non-accrual prior to being charged-off. Closed-end consumer loans, which include installment, automobile, and single payment loans are generally charged-off in full no later than the end of the month in which the loan becomes 120 days past due.

Generally, purchased impaired loans are considered accruing loans. However, the timing and amount of future cash flows for some loans may not be reasonably estimable. Those loans were classified as non-accrual loans as of September 30, 2011, and interest income will not be recognized until the timing and amount of the future cash flows can be reasonably estimated.

Troubled Debt Restructurings ("TDRs") - TDRs are loans for which the original contractual terms of the loans have been modified and both of the following conditions exist: (i) the restructuring constitutes a concession (including forgiveness of principal or interest) and (ii) the borrower is experiencing financial difficulties. Loans are not classified as TDRs when the modification is short-term or results in only an insignificant delay or shortfall in the payments to be received. The Company's TDRs are determined on a case-by-case basis in connection with ongoing loan collection processes.

The Company does not accrue interest on any TDRs unless it believes collection of all principal and interest under the modified terms is reasonably assured. Generally, six months of consecutive payment performance by the borrower under the restructured terms is required before a TDR is returned to accrual status assuming the loan is restructured at reasonable market terms (e.g., not at below market terms). However, the period could vary depending upon the individual facts and circumstances of the loan.

For a TDR to begin accruing interest, the borrower must demonstrate both some level of performance and the capacity to perform under the modified terms. A history of timely payments and adherence to financial covenants generally serve as sufficient evidence of the borrower's performance. An evaluation of the borrower's current creditworthiness is used to assess whether the borrower has the capacity to repay the loan under the modified terms. This evaluation includes an estimate of expected cash flows, evidence of strong financial position, and estimates of the value of collateral, if applicable.

Impaired Loans - Impaired loans consist of corporate non-accrual loans and TDRs in accordance with applicable authoritative accounting guidance.

With the exception of loans that were restructured and still accruing interest, a loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all contractual principal and interest due according to the terms of the loan agreement. Loans deemed to be impaired are classified as non-accrual and are exclusive of smaller homogeneous loans, such as home equity, installment, and 1-4 family mortgages. When a loan is designated as impaired, any subsequent principal and interest payments received are applied to the principal on the loan. Future interest income may only be recorded on a cash basis after recovery of principal is reasonably assured.

Certain impaired loans with balances under a specified threshold are not individually evaluated for impairment. For all other impaired loans, impairment is measured by estimating the value of the loan based on the present value of expected future cash flows discounted at the loan's initial effective interest rate or the fair value of the underlying collateral less costs to sell, if repayment of the loan is collateral-dependent. The Company evaluates the collectability of both principal and interest when assessing the need for loss accrual. All impaired loans are included in non-performing assets. Purchased credit impaired loans are not reported as impaired loans provided that they continue to perform in accordance with expected cash flows.

90-Day Past Due Loans - 90 days or more past due loans are loans for which principal or interest payments become 90 days or more past due, but that still accrue interest. The Company continues to accrue interest if it determines these loans are well secured and in the process of collection.

Allowance for Credit Losses - The allowance for credit losses is comprised of the allowance for loan losses and the reserve for unfunded commitments and is maintained by management at a level believed adequate to absorb estimated losses inherent in the existing loan portfolio. Determination of the allowance for credit losses is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on a loss migration analysis that uses historical loss experience, consideration of current economic trends, and other factors, all of which may be susceptible to significant change.

The allowance for loan losses takes into consideration such internal and external qualitative factors as changes in the nature, volume, size, and current risk characteristics of the loan portfolio; an assessment of individual problem loans; actual and anticipated loss experience; current economic conditions that affect the borrower's ability to pay; and other pertinent factors. Credit exposures deemed to be uncollectible are charged-off against the allowance for loan losses, while recoveries of amounts previously charged-off are credited to the allowance for loan losses. Additions to the allowance for loan losses are established through the provision for loan losses charged to expense. The amount charged to operating expense in any given period is dependent upon a number of factors including historic loan growth, changes in the composition of the loan portfolio, net charge-off levels, and the Company's assessment of the allowance for loan losses based on the methodology discussed below.

The allowance for loan losses consists of (i) specific reserves established for probable losses on individual loans for which the recorded investment in the loan exceeds the value of the loan, (ii) an allowance based on a loss migration analysis that uses historical credit loss experience for each loan category, and (iii) the impact of other internal and external qualitative factors.

The specific reserves component of the allowance for loan losses is based on a periodic analysis of impaired loans exceeding a fixed dollar amount where the internal credit rating is at or below a predetermined classification, as well as other loans regardless of internal credit rating that management believes are subject to a higher risk of loss. The value of the loan is measured based on the present value of expected future cash flows, discounted at the loan's initial effective interest rate, or the fair value of the underlying collateral less costs to sell, if repayment of the loan is collateral-dependent. If the resulting amount is less than the recorded book value, the Company either establishes a valuation allowance (i.e., a specific reserve) as a component of the allowance for loan losses or charges-off the impaired balance if it determines that such amount is a confirmed loss.

The component of the allowance for loan losses is based on a loss migration analysis that examines actual loss experience for a rolling 8-quarter period and, for corporate loans, the related internal rating of loans charged-off. The loss migration analysis is performed quarterly and loss factors are updated regularly based on actual experience. The loss component derived from a migration analysis is then adjusted for management's estimate of those losses inherent

in the loan portfolio that have yet to be manifested in historical charge-off experience. Management takes into consideration many internal and external qualitative factors when estimating this adjustment, including:

- Changes in the composition of the loan portfolio and trends in volume and terms of loans, as well as trends in delinquent and non-accrual loans that could indicate historical averages do not reflect current conditions;
- Changes in credit policies and procedures, including underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in the experience, ability, and depth of credit management and other relevant staff;
- Changes in the quality of the Company's loan review system and Board of Directors oversight;
- The existence and effect of any concentration of credit, and changes in the level of concentrations, whether it is by market, loan type, or risk rating;
- Changes in the value of underlying collateral for collateral-dependent loans;

- Changes in the national and local economy that affect the collectability of the portfolio, including the condition of various market segments; and
- The effect of other external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the Company's existing portfolio.

The Company also maintains a reserve for unfunded credit commitments, including letters of credit, to provide for the risk of loss inherent in these arrangements. The reserve for unfunded credit commitments is computed based on a loss migration analysis similar to that used to determine the allowance for loan losses, taking into consideration probabilities of future funding requirements. This reserve for unfunded commitments is included in other liabilities in the Condensed Consolidated Statements of Financial Condition.

The establishment of the allowance for credit losses involves a high degree of judgment and includes a level of imprecision given the difficulty of identifying all of the factors impacting loan repayment and the timing of when losses actually occur. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses is dependent upon a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation by regulatory authorities of loan risk classifications. While each component of the allowance for credit losses is determined separately, the entire balance is available for the entire loan portfolio.

Comprehensive Income – Comprehensive income is the total of reported net income and other comprehensive income ("OCI"). OCI includes all other revenues, expenses, gains, and losses that are not reported in net income under GAAP. The Company includes the following items, net of tax, in other comprehensive income in the Consolidated Statements of Comprehensive Income: (i) changes in unrealized gains or losses on securities available-for-sale, (ii) changes in the fair value of derivatives designated under cash flow hedges (when applicable), and (iii) changes in the funded status of the Company's pension plan.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Guidance

Credit Quality and Allowance for Credit Losses Disclosures: In July 2010, the Financial Accounting Standards Board ("FASB") issued guidance that requires companies to provide more information about the credit risks inherent in their loan and lease portfolios and how management considers those credit risks in determining the allowance for credit losses. A company is required to disclose its accounting policies, the methods it uses to determine the components of the allowance for credit losses, and qualitative and quantitative information about the credit quality of its loan portfolio, such as aging information and credit quality indicators. Both new and existing disclosures are required, either by portfolio segment or class, based on how a company develops its allowance for credit losses and how it manages its credit exposure. The guidance is effective for all financing receivables, including loans and trade accounts receivables. However, short-term trade accounts receivables, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure requirements. The Company adopted the period end disclosure requirements on December 31, 2010, disclosure requirements pertaining to period activity on January 1, 2011, and disclosure requirements related to TDRs on July 1, 2011. This disclosure is presented in Note 1, "Summary of Significant Accounting Policies," and Note 6, "Past Due Loans, Allowance for Credit Losses, and Impaired Loans." As this guidance affected only disclosures, the adoption of this guidance did not impact the Company's financial position, results of operations, or liquidity.

Clarification to Accounting for Troubled Debt Restructurings: In April 2011, the FASB issued guidance to clarify the accounting for TDRs. Given the recent economic downturn, many banks have seen an increase in the number of loan

modifications. Diversity in practice exists in terms of identifying whether a loan modification qualifies as a TDR, such that the FASB was asked to provide guidance. This new guidance was developed to assist creditors in determining whether a loan modification meets the criteria to be considered a TDR, both for purposes of recording an impairment and for disclosure of TDRs. The amendment specifies that in evaluating whether a restructuring constitutes a TDR, a creditor must conclude that both of the following conditions exist: (i) the restructuring constitutes a concession and (ii) the borrower is experiencing financial difficulties. The Company adopted this guidance effective July 1, 2011, and applied this guidance to restructurings occurring on or after January 1, 2011. The new guidance did not impact the Company's financial position, results of operations, or liquidity or the numbers of TDRs indentified.

Statement of Comprehensive Income: In April 2011, the FASB issued accounting guidance requiring companies to include a statement of comprehensive income as part of its interim and annual financial statements. The new guidance gives companies the option to present net income and comprehensive income either in one continuous statement or in two separate, but consecutive statements. This approach represents a change from current GAAP, which allows companies to report OCI

and its components in the statement of shareholder's equity. The guidance also allows companies to present OCI either net of tax with details in the notes or shown gross of tax (with tax effects shown parenthetically). This guidance is effective for fiscal years beginning after December 15, 2011, but early adoption is permitted. The Company elected to adopt this guidance in third quarter 2011 and presented the disclosure requirements in its new Consolidated Statements of Comprehensive Income. Since the new guidance impacted disclosures only, it did not have an impact on the Company's financial position, results of operations, or liquidity.

Recently Issued Accounting Guidance

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS"): In April 2011, the FASB issued guidance that clarifies the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The guidance does not extend the use of fair value accounting, but clarifies the wording on how it should be applied to be consistent with IFRS and expands certain disclosure requirements relating to Level 3 fair value measurements. For many of the requirements, the FASB does not intend for the amendments in this update to result in a change in application from current guidance. This guidance is to be applied prospectively for interim and annual periods beginning after December 15, 2011. Since the guidance only relates to disclosure, the adoption of this guidance is not expected to impact the Company's financial condition, results of operations, or liquidity.

Testing Goodwill for Impairment: In September 2011, the FASB issued new guidance that gives an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing those events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not necessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amendments in this guidance, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments do not change the current guidance for testing other indefinite lived intangible assets for impairment. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial condition, results of operation, or liquidity.

3. SECURITIES

Securities available-for-sale are carried at fair value with unrealized gains and losses, net of related deferred income taxes, recorded in stockholders' equity as a separate component of accumulated other comprehensive loss. Securities classified as held-to-maturity are securities that management has the positive intent and ability to hold to maturity and are stated at cost. Trading securities are reported at fair value. Trading (losses) gains, net, represent changes in the fair value of the trading securities portfolio and are included as a component of other noninterest income in the Condensed Consolidated Statements of Income.

Securities Portfolio
(Dollar amounts in thousands)

	September 30, 2011				December 31, 2010			
	Amortized	Gross Unrealized		Fair	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
Securities Available-for-Sale								
U.S. agency securities	$ 5,091	$ 22	$ (10)	$ 5,103	$ 18,000	$ 7	$ (121)	$ 17,886
Collateralized residential mortgage obligations ("CMOs")	334,942	3,831	(1,325)	337,448	377,692	4,261	(2,364)	379,589
Other residential mortgage-backed securities	91,926	6,514	(53)	98,387	100,780	5,732	(61)	106,451
Municipal securities	467,213	18,422	(685)	484,950	512,063	4,728	(12,800)	503,991
Collateralized debt obligations ("CDOs")	49,518	-	(35,301)	14,217	49,695	-	(34,837)	14,858
Corporate debt securities	25,336	2,330	-	27,666	29,936	2,409	-	32,345
Equity securities:								
Hedge fund investment	1,231	389	-	1,620	1,245	438	-	1,683
Other equity securities	903	136	-	1,039	889	110	-	999
Total equity securities	2,134	525	-	2,659	2,134	548	-	2,682
Total	$ 976,160	$ 31,644	$ (37,374)	$ 970,430	$ 1,090,300	$ 17,685	$ (50,183)	$ 1,057,802
Securities Held-to-Maturity								
Municipal securities	$ 74,375	$ 4,577	$ -	$ 78,952	$ 81,320	$ 1,205	$ -	$ 82,525
Trading Securities (1)				$ 13,308				$ 15,282

(1) Trading securities held by the Company represent diversified investment securities held in a grantor trust under deferred compensation arrangements in which plan participants may direct amounts earned to be invested in securities other than Company stock.

Remaining Contractual Maturity of Securities
(Dollar amounts in thousands)

September 30, 2011

Available-for-Sale Held-to-Maturity

	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$ 9,435	$ 9,173	$ 7,415	$ 7,871
One year to five years	303,639	295,192	20,560	21,825
Five years to ten years	119,758	116,426	14,526	15,421
After ten years	114,326	111,145	31,874	33,835
CMOs	334,942	337,448	-	-
Other residential mortgage-backed securities	91,926	98,387	-	-
Equity securities	2,134	2,659	-	-
Total	$ 976,160	$ 970,430	$ 74,375	$ 78,952

The carrying value of securities available-for-sale that were pledged to secure deposits and for other purposes as permitted or required by law totaled $692.3 million at September 30, 2011 and $808.3 million at December 31, 2010. No securities held-to-maturity were pledged as of September 30, 2011 or December 31, 2010.

Purchases and sales of securities are recognized on a trade date basis. Realized securities gains or losses are reported in securities gains, net in the Condensed Consolidated Statements of Income. The cost of securities sold is based on the specific identification method.

Securities Gains (Losses)
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Proceeds from sales	$ 80,126	$ 142,788	$ 177,456	$ 290,389
Gains (losses) on sales of securities:				
Gross realized gains	$ 671	$ 7,660	$ 3,453	$ 15,847
Gross realized losses	(45)	(320)	(756)	(432)
Net realized gains on securities sales	626	7,340	2,697	15,415
Non-cash impairment charges:				
Other-than-temporary securities impairment	(641)	(964)	(641)	(5,308)
Portion of other-than-temporary impairment recognized in other comprehensive income	464	-	464	447
Net non-cash impairment charges	(177)	(964)	(177)	(4,861)
Net realized gains	$ 449	$ 6,376	$ 2,520	$ 10,554
Income tax expense on net realized gains	$ 184	$ 2,487	$ 1,031	$ 4,116
Trading (losses) gains, net (1)	$ (2,352)	$ 1,121	$ (1,610)	$ 560

(1) All trading (losses) gains, net relate to trading securities still held as of September 30, 2011.

The non-cash impairment charges in the table above primarily relate to other-than-temporary ("OTTI") charges on CDOs. Accounting guidance requires that only the credit portion of an OTTI charge be recognized through income. In deriving the credit component of the impairment on the CDOs, projected cash flows were discounted at the contractual rate ranging from the London Interbank Offered Rate ("LIBOR") plus 125 basis points to LIBOR plus 160 basis points. Fair values are computed by discounting future projected cash flows at higher rates, ranging from LIBOR plus 1,300 basis points to LIBOR plus 1,400 basis points. The higher rates are used to account for other market factors, such as liquidity. If a decline in fair value below carrying value is not attributable to credit loss and the Company does not intend to sell the security or believe it would not be more likely than not required to sell the security prior to recovery, the Company records the decline in fair value in other comprehensive income.

Changes in the amount of credit losses recognized in earnings on CDOs and other securities are summarized in the following table.

Changes in Credit Losses Recognized in Earnings
(Dollar amounts in thousands)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	$ 35,589	$ 34,736	$ 35,589	$ 30,839

Cumulative amount recognized at beginning of period								
Credit losses included in earnings (1):								
Losses recognized on securities that previously had credit losses		177		853		177		4,421
Losses recognized on securities that did not previously have credit losses		-		-		-		329
Cumulative amount recognized at end of period	$	35,766	$	35,589	$	35,766	$	35,589

(1)Included in securities gains, net in the Condensed Consolidated Statements of Income.

Securities in an Unrealized Loss Position
(Dollar amounts in thousands)

		Less Than 12 Months		12 Months or Longer		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of September 30, 2011							
U.S. agency security	1	$ -	$ -	$ 3,046	$ 10	$ 3,046	$ 10
CMOs	18	97,951	818	6,421	507	104,372	1,325
Other residential mortgage-backed securities	4	4,670	32	474	21	5,144	53
Municipal securities	35	3,878	272	10,988	413	14,866	685
CDOs	6	-	-	14,217	35,301	14,217	35,301
Total	64	$ 106,499	$ 1,122	$ 35,146	$ 36,252	$ 141,645	$ 37,374
As of December 31, 2010							
U.S. agency securities	4	$ 9,096	$ 120	$ -	$ 1	$ 9,096	$ 121
CMOs	19	131,056	1,727	7,843	637	138,899	2,364
Other residential mortgage-backed securities	5	6,084	51	159	10	6,243	61
Municipal securities	479	99,537	3,142	166,403	9,658	265,940	12,800
CDOs	6	-	-	14,858	34,837	14,858	34,837
Total	513	$ 245,773	$ 5,040	$ 189,263	$ 45,143	$ 435,036	$ 50,183

Approximately 98% of the Company’s CMOs and other mortgage-backed securities are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. Municipal securities are issued by municipal authorities, and the majority is supported by third-party insurance or some other form of credit enhancement. Management does not believe any individual unrealized loss as of September 30, 2011 represents an other-than-temporary impairment. The unrealized losses associated with these securities are not believed to be attributed to credit quality, but rather to changes in interest rates and temporary market movements. In addition, the Company does not intend to sell the securities with unrealized losses, and it is not more likely than not that the Company will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

The unrealized losses on CDOs as of September 30, 2011 reflect the market’s unfavorable view of structured investment vehicles given the current interest rate and liquidity environment. Management does not believe the unrealized losses on the CDOs represent an other-than-temporary impairment. In addition, the Company does not intend to sell the CDOs with unrealized losses, and the Company does not believe it is more likely than not that it will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

Significant judgment is required to calculate the fair value of the CDOs, all of which are pooled. Generally, fair value determinations are based on several factors regarding current market and economic conditions relating to such securities and the underlying collateral. For these reasons and due to the illiquidity in the secondary market for these CDOs, the Company estimates the fair value of these securities using discounted cash flow analyses with the

assistance of a structured credit valuation firm.

Prepayment assumptions are a key factor in estimating the cash flows. Prepayments may occur on the collateral underlying the Company’s CDOs based on call options or other factors. Most of the collateral underlying the CDOs have a 5-year call option (on the fifth anniversary of issuance, the issuer has the right to call the security at par). In addition, most underlying indentures trigger an issuer call right if a capital treatment event occurs, such as a regulatory change that affects its status as Tier 1 capital (as defined in federal regulations). The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) constituted such an event for certain holding companies. Specifically, companies with $15 billion or more in consolidated assets can no longer include hybrid capital instruments, such as trust-preferred securities, in Tier 1 capital beginning January 1, 2013. As of September 30, 2011, the Company has assumed a 15% prepayment rate for those banks with greater than $15 billion in assets in year 3 (the start of the phase out period for Tier 1 capital treatment), followed by an annual prepayment rate of 1%.

For additional discussion of the CDO valuation methodology, refer to Note 11, “Fair Value.”

Certain Characteristics and Metrics of the CDOs as of September 30, 2011
(Dollar amounts in thousands)

Number	Class	Original Par	Amortized Cost	Fair Value	Lowest Credit Rating Assigned to the Security Moody's	Fitch	Number of Banks/ Insurers	% of Banks/ Insurers Currently Performing	Actual Deferrals and Defaults as a % of the Original Collateral (1)	Expected Deferrals and Defaults as a % of the Remaining Performing Collateral (1)	Excess Subordination as a % of the Remaining Performing Collateral (2)
1	C-1	$ 17,500	$ 7,140	$ 2,977	Ca	C	46	73.9%	15.8%	20.6%	0.0%
2	C-1	15,000	7,657	1,992	Ca	C	57	82.5%	12.8%	19.9%	0.0%
3	C-1	15,000	13,303	3,291	Ca	C	63	79.4%	8.3%	16.7%	8.2%
4	B1	15,000	13,922	4,123	Ca	C	63	58.7%	35.0%	28.9%	0.0%
5	C	10,000	1,317	147	C	C	56	57.1%	46.2%	29.3%	0.0%
6	C	6,500	6,179	1,687	Ca	C	79	68.4%	24.3%	13.8%	9.3%
7 (3)	A-3L	6,750	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		$ 85,750	$ 49,518	$ 14,217							

(1) Deferrals and defaults are provided net of recoveries. No recovery is assumed for collateral that has already defaulted. For deferring collateral, the Company assumes a recovery rate of 10% of par for banks, thrifts, and other depository institutions and 15% of par for insurance companies.

(2) Excess subordination represents additional defaults in excess of current defaults that the CDO can absorb before the security experiences any credit impairment. The excess subordination percentage is calculated by dividing the amount of potential additional loss that can be absorbed (before the receipt of all expected future principal and interest payments is affected) by the total balance of performing collateral. Even with excess subordination, the CDO could experience an OTTI charge if future deterioration of underlying collateral in excess of current excess subordination is anticipated.

(3) Characteristics and metrics are not reported for this CDO since the security had an amortized cost and fair value of zero as of September 30, 2011.

Credit-Related CDO Impairment Losses
(Dollar amounts in thousands)

Number	Quarters Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010	Life-to-Date
1	$ -	$ -	$ -	$ -	$ 10,360
2	-	-	-	794	7,343
3	177	142	177	142	1,336
4	-	-	-	684	1,078
5	-	711	-	2,801	8,570
6	-	-	-	243	243

7	-	-	-	-	6,750
	$ 177	$ 853	$ 177	$ 4,664	$ 35,680

19

4. LOANS

Loan Portfolio
(Dollar amounts in thousands)

	September 30, 2011	December 31, 2010
Commercial and industrial	$ 1,476,034	$ 1,465,903
Agricultural	250,436	227,756
Commercial real estate:		
Office, retail, and industrial	1,263,315	1,203,613
Multi-family	317,313	349,862
Residential construction	116,283	174,690
Commercial construction	145,889	164,472
Other commercial real estate	877,241	856,357
Total commercial real estate	2,720,041	2,748,994
Total corporate loans	4,446,511	4,442,653
Home equity	424,986	445,243
1-4 family mortgages	189,587	160,890
Installment loans	43,410	51,774
Total consumer loans	657,983	657,907
Total loans, excluding covered loans	5,104,494	5,100,560
Covered loans (1)	289,747	371,729
Total loans	$ 5,394,241	$ 5,472,289
Deferred loan fees included in total loans	$ 7,987	$ 8,042
Overdrawn demand deposits included in total loans	$ 3,417	$ 4,281

(1)For information on covered loans, refer to Note 5, "Covered Assets."

The Company primarily lends to small and mid-sized businesses, commercial real estate customers, and consumers in the markets in which the Company operates. Within these areas, the Company diversifies its loan portfolio by loan type, industry, and borrower.

It is the Company's policy to review each prospective credit in order to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with state lending laws, the Company's lending standards, and credit monitoring and remediation procedures.

5. COVERED ASSETS

In 2009 and 2010, the Company acquired the majority of the assets of three financial institutions in FDIC-assisted transactions. Most loans and OREO acquired in the acquisitions are covered by loss sharing agreements with the FDIC (the "Agreements"), whereby the FDIC will reimburse the Company for the majority of the losses incurred on these assets. A detailed discussion of these transactions is presented in Note 5, "Covered Assets" contained in the Company's 2010 10-K.

Covered Assets
(Dollar amounts in thousands)

	September 30, 2011	December 31, 2010
Home equity lines (1)	$ 45,888	$ 52,980
Covered impaired loans	204,104	281,893
Other covered loans (2)	39,755	36,856
Total covered loans	289,747	371,729
FDIC indemnification asset	63,508	95,899
Covered OREO	21,594	22,370
Total covered assets	$ 374,849	$ 489,998
Covered non-accrual loans	$ 15,573	$ -
Covered loans past due 90 days or more and still accruing interest	$ 56,834	$ 84,350

(1)These loans are open-end consumer loans that are not categorized as impaired loans.
(2)These are loans that did not have evidence of impairment on the date of acquisition.

The loans purchased in the three FDIC-assisted transactions were recorded at their estimated fair values on the respective purchase dates and are accounted for prospectively based on expected cash flows. An allowance for loan losses was not recorded on these loans at the acquisition date. Except for leases and revolving loans, including lines of credit and credit card loans, management determined that a significant portion of the acquired loans ("purchased impaired loans") had evidence of credit deterioration since origination, and it was probable at the date of acquisition that the Company would not collect all contractually required principal and interest payments. Evidence of credit quality deterioration included factors, such as past due and non-accrual status. Other key considerations and indicators include the past performance of the troubled institutions' credit underwriting standards, completeness and accuracy of credit files, maintenance of risk ratings, and age of appraisals.

Although some loans were contractually 90 days or more past due at the acquisition date, most of the purchased impaired loans at September 30, 2011 and December 31, 2010 were not classified as non-performing loans since the loans continued to perform substantially in accordance with the Company's expectations of cash flows. Interest income is being recognized on the majority of purchased loans through accretion of the difference between the carrying amount of the loans and the expected cash flows.

The Company has also modified certain loans according to provisions in the Agreements. Losses associated with modifications on these loans are generally eligible for reimbursement under the Agreements. Acquired loans restructured after acquisition date are not considered TDRs for purposes of the Company's accounting and disclosure since the loans evidenced credit deterioration as of the acquisition date.

In connection with the Agreements, the Company recorded an indemnification asset. To maintain eligibility for the loss share reimbursement, the Company is required to follow certain servicing procedures as specified in the Agreements.

The accounting policies related to purchased impaired loans are presented in Note 1, "Summary of Significant Accounting Policies." Accounting for the related FDIC indemnification asset is presented in Note 1, "Summary of Significant Accounting Policies," contained in the Company's 2010 10-K.

Changes in FDIC Indemnification Asset
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance at beginning of period	$ 95,752	$ 75,991	$ 95,899	$ 67,945
Additions	-	50,530	-	58,868
Amortization	(4,374)	(3,123)	(8,871)	(874)
Expected reimbursements from the FDIC for changes in expected credit losses (1)	6,507	2,779	28,341	15,497
Payments received from the FDIC	(34,377)	(30,536)	(51,861)	(45,795)
Balance at end of period	$ 63,508	$ 95,641	$ 63,508	$ 95,641

(1)The increases in indemnification asset were a result of decreases in estimated cash flows on certain loans. The indemnification asset increased by the applicable loss share percentage for additional expected losses.

Changes in the accretable yield for purchased impaired loans were as follows.

Changes in Accretable Yield
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance at beginning of period	$ 55,606	$ 24,474	$ 63,616	$ 9,298
Additions	-	39,154	-	41,745
Accretion	(7,892)	(4,816)	(28,420)	(10,461)
Reclassifications (to) from non-accretable difference, net (1)	(2,657)	-	9,861	18,230
Balance at end of period	$ 45,057	$ 58,812	$ 45,057	$ 58,812

(1)Amount represents a (decrease) increase in the estimated cash flows to be collected over the remaining estimated life of the underlying portfolio.

6. PAST DUE LOANS, ALLOWANCE FOR CREDIT LOSSES, AND IMPAIRED LOANS

Past Due and Non-accrual Loans

The following table presents an aging analysis of the Company's past due loans as of September 30, 2011 and December 31, 2010. The aging is determined without regard to accrual status. The table also presents non-performing loans, consisting of non-accrual loans (most of which are past due) and loans 90 days or more past due and still accruing interest, as of each balance sheet date.

Aging Analysis of Past Due Loans and Non-Performing Loans by Class
(Dollar amounts in thousands)

	Aging Analysis (Accruing and Non-accrual)					Non-performing Loans	
	Current	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans	Non-accrual Loans	90 Days Past Due Loans, Still Accruing Interest
September 30, 2011							
Commercial and industrial	$ 1,437,341	$ 12,385	$ 26,308	$ 38,693	$ 1,476,034	$ 30,507	$ 3,096
Agricultural	247,553	13	2,870	2,883	250,436	2,977	-
Commercial real estate:							
Office, retail, and industrial	1,227,218	18,674	17,423	36,097	1,263,315	24,728	128
Multi-family	298,258	6,199	12,856	19,055	317,313	18,196	-
Residential construction	100,577	885	14,821	15,706	116,283	20,911	-
Commercial construction	130,217	-	15,672	15,672	145,889	15,672	-
Other commercial real estate	840,918	3,130	33,193	36,323	877,241	45,727	802
Total commercial real estate	2,597,188	28,888	93,965	122,853	2,720,041	125,234	930
Total corporate loans	4,282,082	41,286	123,143	164,429	4,446,511	158,718	4,026
Home equity	411,270	5,417	8,299	13,716	424,986	7,789	1,452
1-4 family mortgages	182,475	2,206	4,906	7,112	189,587	4,648	489
Installment loans	42,884	451	75	526	43,410	34	41
Total consumer loans	636,629	8,074	13,280	21,354	657,983	12,471	1,982
Total loans, excluding covered loans	4,918,711	49,360	136,423	185,783	5,104,494	171,189	6,008
Covered loans	207,485	11,317	70,945	82,262	289,747	15,573	56,834
Total loans	$ 5,126,196	$ 60,677	$ 207,368	$ 268,045	$ 5,394,241	$ 186,762	$ 62,842
December 31, 2010							
Commercial and industrial	$ 1,428,841	$ 7,706	$ 29,356	$ 37,062	$ 1,465,903	$ 50,088	$ 1,552

Agricultural	225,007	65	2,684	2,749	227,756	2,497	187
Commercial real estate:							
Office, retail, and industrial	1,183,952	4,009	15,652	19,661	1,203,613	19,573	-
Multi-family	345,018	2,811	2,033	4,844	349,862	6,203	-
Residential construction	139,499	1,320	33,871	35,191	174,690	52,122	200
Commercial construction	140,044	4,000	20,428	24,428	164,472	28,685	-
Other commercial real estate	813,333	9,091	33,933	43,024	856,357	40,605	345
Total commercial real estate	2,621,846	21,231	105,917	127,148	2,748,994	147,188	545
Total corporate loans	4,275,694	29,002	137,957	166,959	4,442,653	199,773	2,284
Home equity	431,446	4,715	9,082	13,797	445,243	7,948	1,870
1-4 family mortgages	154,999	2,523	3,368	5,891	160,890	3,902	4
Installment loans	50,899	742	133	875	51,774	159	86
Total consumer loans	637,344	7,980	12,583	20,563	657,907	12,009	1,960
Total loans, excluding covered loans	4,913,038	36,982	150,540	187,522	5,100,560	211,782	4,244
Covered loans	268,934	18,445	84,350	102,795	371,729	-	84,350
Total loans	$ 5,181,972	$ 55,427	$ 234,890	$ 290,317	$ 5,472,289	$ 211,782	$ 88,594

Allowance for Credit Losses

The Company maintains an allowance for credit losses at a level believed adequate by management to absorb probable losses inherent in the loan portfolio.

Allowance for Credit Losses
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance at beginning of period	$ 139,831	$ 145,477	$ 145,072	$ 144,808
Loans charged-off	(29,998)	(35,806)	(79,315)	(80,535)
Recoveries of loans previously charged-off	1,033	1,772	6,854	7,294
Net loans charged-off	(28,965)	(34,034)	(72,461)	(73,241)
Provision for loan losses	20,425	33,576	58,680	73,452
Balance at end of period	$ 131,291	$ 145,019	$ 131,291	$ 145,019
Allowance for loan losses	$ 128,791	$ 144,569	$ 128,791	$ 144,569
Reserve for unfunded commitments	2,500	450	2,500	450
Total allowance for credit losses	$ 131,291	$ 145,019	$ 131,291	$ 145,019

Allowance for Credit Losses by Portfolio Segment
(Dollar amounts in thousands)

	Commercial, Industrial, and Agricultural	Office, Retail, and Industrial	Multi-Family	Residential Construction	Other Commercial Real Estate	Consumer	Covered Loans	Total Allowance
Nine Months ended September 30, 2011								
Balance at beginning of period	$ 49,545	$ 20,758	$ 3,996	$ 27,933	$ 29,869	$ 12,971	$ -	$ 145,072
Loans charged-off	(22,815)	(4,395)	(9,445)	(11,397)	(17,018)	(8,021)	(6,224)	(79,315)
Recoveries of loans previously charged-off	2,952	60	74	2,830	623	315	-	6,854
Net loans charged-off	(19,863)	(4,335)	(9,371)	(8,567)	(16,395)	(7,706)	(6,224)	(72,461)
Provision for loan losses	19,217	224	9,985	(1,295)	13,637	9,665	7,247	58,680
	$ 48,899	$ 16,647	$ 4,610	$ 18,071	$ 27,111	$ 14,930	$ 1,023	$ 131,291

Balance at end of period								
Nine Months ended September 30, 2010								
Balance at beginning of period	$ 54,452	$ 20,164	$ 4,555	$ 33,078	$ 21,084	$ 11,475	$ -	$ 144,808
Loans charged-off	(26,376)	(7,434)	(1,771)	(19,176)	(17,128)	(7,986)	(664)	(80,535)
Recoveries of loans previously charged-off	4,796	612	552	270	342	698	24	7,294
Net loans charged-off	(21,580)	(6,822)	(1,219)	(18,906)	(16,786)	(7,288)	(640)	(73,241)
Provision for loan losses	22,125	6,837	573	9,379	24,509	9,389	640	73,452
Balance at end of period	$ 54,997	$ 20,179	$ 3,909	$ 23,551	$ 28,807	$ 13,576	$ -	$ 145,019

Impaired Loans

A portion of the Company's allowance for credit losses is allocated to loans deemed impaired. Impaired loans consist of corporate non-accrual loans and TDRs. Smaller homogeneous loans, such as home equity, installment, and 1-4 family mortgages, are not individually assessed for impairment.

Impaired Loans
(Dollar amounts in thousands)

	September 30, 2011	December 31, 2010
Impaired loans individually evaluated for impairment:		
Impaired loans with a related allowance for credit losses (1)	$ 35,447	$ 13,790
Impaired loans with no specific related allowance (2)	110,539	173,534
Total impaired loans individually evaluated for impairment	145,986	187,324
Corporate non-accrual loans not individually evaluated for impairment (3)	12,732	12,449
Total corporate non-accrual loans	158,718	199,773
TDRs, still accruing interest	7,033	22,371
Total impaired loans	$ 165,751	$ 222,144
Valuation allowance related to impaired loans	$ 14,893	$ 6,343

(1) These impaired loans require a valuation allowance because the present value of expected future cash flows or the estimated value of the related collateral less estimated selling costs is less than the recorded investment in the loans.
(2) No specific allowance for credit losses is allocated to these loans since they are deemed to be sufficiently collateralized or had charge-offs. However, while each component of the allowance for credit losses is determined separately, the entire balance is available for the entire loan portfolio.
(3) These are loans with balances under a specified threshold.

The table below provides a break-down of loans and the related allowance for credit losses by portfolio segment. Loans individually evaluated for impairment include corporate non-accrual loans with the exception of certain loans with balances under a specified threshold.

The present value of any decreases in expected cash flows of covered loans after the purchase date is recognized by recording a charge-off through the allowance for loan losses. Since most covered loans are accounted for as purchased impaired loans and the carrying values of those loans are periodically adjusted for any changes in expected future cash flows, they are not included in the calculation of the allowance for credit losses and are not displayed in this table.

Loans and Related Allowance for Credit Losses by Portfolio Segment
(Dollar amounts in thousands)

	Loans			Allowance For Credit Losses		
	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	Total	Individually Evaluated For Impairment	Collectively Evaluated For Impairment	Total
September 30, 2011						
Commercial, industrial, and agricultural	$ 26,421	$ 1,700,049	$ 1,726,470	$ 7,625	$ 41,274	$ 48,899
Commercial real estate:						
Office, retail, and industrial	23,168	1,240,147	1,263,315	154	16,493	16,647
Multi-family	17,489	299,824	317,313	35	4,575	4,610
Residential construction	20,327	95,956	116,283	2,360	15,711	18,071
Other commercial real estate	58,581	964,549	1,023,130	4,719	22,392	27,111
Total commercial real estate	119,565	2,600,476	2,720,041	7,268	59,171	66,439
Total corporate loans	145,986	4,300,525	4,446,511	14,893	100,445	115,338
Consumer	-	657,983	657,983	-	14,930	14,930
Total loans, excluding covered loans	145,986	4,958,508	5,104,494	14,893	115,375	130,268
Covered loans (1)	-	45,888	45,888	-	1,023	1,023
Total loans included in the calculation of the allowance for credit losses	$ 145,986	$ 5,004,396	$ 5,150,382	$ 14,893	$ 116,398	$ 131,291
December 31, 2010						
Commercial, industrial, and agricultural	$ 43,365	$ 1,650,294	$ 1,693,659	$ 2,650	$ 46,895	$ 49,545
Commercial real estate:						
Office, retail, and industrial	18,076	1,185,537	1,203,613	-	20,758	20,758
Multi-family	5,696	344,166	349,862	497	3,499	3,996
Residential construction	51,269	123,421	174,690	-	27,933	27,933
Other commercial real estate	68,918	951,911	1,020,829	3,196	26,673	29,869
Total commercial real estate	143,959	2,605,035	2,748,994	3,693	78,863	82,556

Total corporate loans	187,324	4,255,329	4,442,653	6,343	125,758	132,101
Consumer	-	657,907	657,907	-	12,971	12,971
Total	$ 187,324	$ 4,913,236	$ 5,100,560	$ 6,343	$ 138,729	$ 145,072

(1)These are open-end consumer loans that are not categorized as impaired loans.

26

The following table presents loans individually evaluated for impairment by class of loan as of September 30, 2011 and December 31, 2010.

Impaired Loans Individually Evaluated by Class
(Dollar amounts in thousands)

	September 30, 2011				December 31, 2010			
	Recorded Investment In				Recorded Investment In			
	Loans with No Specific Related Allowance	Loans with a Related Allowance for Credit Losses	Unpaid Principal Balance	Allowance for Credit Losses Allocated	Loans with No Specific Related Allowance	Loans with a Related Allowance for Credit Losses	Unpaid Principal Balance	Allowance for Credit Losses Allocated
Commercial and industrial	$ 13,484	$ 10,540	$ 33,119	$ 6,948	$ 40,715	$ 2,650	$ 53,353	$ 2,650
Agricultural	-	2,397	3,445	677	2,447	-	2,982	-
Commercial real estate:								
Office, retail, and industrial	21,126	2,042	28,367	154	18,076	-	26,193	-
Multi-family	17,383	106	25,489	35	4,565	1,131	7,322	497
Residential construction	12,521	7,806	46,316	2,360	51,269	-	129,698	-
Commercial construction	15,311	-	20,047	-	28,685	-	38,404	-
Other commercial real estate	30,714	12,556	65,803	4,719	27,777	10,009	60,465	3,196
Total commercial real estate	97,055	22,510	186,022	7,268	130,372	11,140	262,082	3,693
Total impaired loans individually evaluated for impairment	$ 110,539	$ 35,447	$ 222,586	$ 14,893	$ 173,534	$ 13,790	$ 318,417	$ 6,343

	Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
	Average Recorded Investment Balance	Interest Income Recognized (1)	Average Recorded Investment Balance	Interest Income Recognized (1)
Commercial and industrial	$ 48,982	$ 51	$ 35,238	$ 69
Agricultural	1,463	-	1,702	-

Commercial real estate:							
Office, retail, and industrial		30,423		30		26,154		-
Multi-family		12,226		6		8,518		-
Residential construction		34,828		27		89,905		75
Commercial construction		23,818		-		21,522		-
Other commercial real estate		26,143		23		18,821		37
Total commercial real estate		127,438		86		164,920		112
Total impaired loans individually evaluated for impairment	$	177,883	$	137	$	201,860	$	181

(1)Recorded using the cash basis of accounting.

TDRs

TDRs are loans for which the original contractual terms of the loans have been modified and both of the following conditions exist: (i) the restructuring constitutes a concession (including forgiveness of principal or interest) and (ii) the borrower is experiencing financial difficulties. Loans are not classified as TDRs when the modification is short-term or results in only an insignificant delay or shortfall in the payments to be received. The Company's TDRs are determined on a case-by-case basis in connection with ongoing loan collection processes.

Loan modifications are generally performed at the request of the individual borrower and may include reduction in interest rates, changes in payments, and maturity date extensions. Although the Company does not have formal, standardized loan modification programs for its commercial or consumer loan portfolios, it participates in the U.S. Department of the Treasury (the "Treasury")'s Home Affordable Modification Program ("HAMP") and complies with Regulation Z, the Federal Truth in Lending Act. HAMP gives qualifying homeowners an opportunity to refinance into more affordable monthly payments, with the Treasury compensating us for a portion of the reduction in monthly amounts due from borrowers participating in this program.

The following table presents a summary of loans that were restructured during the nine months ended September 30, 2011.

	Nine Months Ended September 30, 2011				
	Number of Loans	Pre-Modification Recorded Investment	Funds Disbursed	Interest and Escrow Capitalized	Post-Modification Recorded Investment
Commercial and industrial	10	$ 886	$ -	$ 7	$ 893
Agricultural	-	-	-	-	-
Commercial real estate:					
Office, retail and industrial	3	3,407	293	9	3,709
Multi-family	-	-	-	-	-
Residential construction	-	-	-	-	-
Commercial construction	-	-	-	-	-
Other commercial real estate	1	174	-	74	248
Total commercial real estate	4	3,581	293	83	3,957
Total corporate loans	14	4,467	293	90	4,850
Home equity	8	508	-	16	524
1-4 family mortgages	12	1,236	-	89	1,325
Installment loans	1	151	-	4	155
Total consumer loans	21	1,895	-	109	2,004
Total TDRs restructured during the period	35	$ 6,362	$ 293	$ 199	$ 6,854

TDRs, still accruing interest (1)	33	$ 6,120	$ 293	$ 122	$ 6,535
TDRs included in non-accrual (2)	2	242	-	77	319
Total	35	$ 6,362	$ 293	$ 199	$ 6,854

(1)These loans are still accruing interest as of September 30, 2011.
(2)These loans are included in non-accrual loans as of September 30, 2011.

The specific reserve portion of the allowance for loan losses on TDRs is determined by discounting the restructured cash flows at the original effective rate of the loan before modification or is based on the underlying collateral value less costs to sell, if repayment of the loan is collateral-dependent. If the resulting amount is less than the recorded book value, the Company either establishes a valuation allowance (i.e. specific reserve) as a component of the allowance for loan losses or charges off the impaired balance if it determines that such amount is a confirmed loss. This method is used consistently for all segments of the portfolio. The allowance for loan losses also includes an allowance based on a loss migration analysis for each loan category for loans that are not individually evaluated for specific impairment. All loans charged-off, including TDRs charged-off, are factored into this calculation by portfolio segment.

The following table presents TDRs that had charge-offs during the nine months ended September 30, 2011. These loans were restructured during the last twelve months and subsequently defaulted, resulting in a principal charge-off during the current year-to-date period. None of these loans accrued interest during the nine months ended September 30, 2011.

	Nine Months Ended September 30, 2011			
	Number of Loans	Pre-Charge-off Recorded Investment	Principal Charged-off	Post-Charge-off Recorded Investment
Commercial and industrial	4	$ 904	$ (368)	$ 536
Agricultural	-	-	-	-
Commercial real estate:				
Office, retail and industrial	1	397	(397)	-
Multi-family	14	4,772	(1,231)	3,541
Residential construction	5	6,088	(1,512)	4,576
Commercial construction	-	-	-	-
Other commercial real estate	3	2,014	(494)	1,520
Total commercial real estate	23	13,271	(3,634)	9,637
Total corporate loans	27	14,175	(4,002)	10,173
Home equity	3	252	(172)	80
1-4 family mortgages	3	296	(241)	55
Installment loans	-	-	-	-
Total consumer loans	6	548	(413)	135
Total TDRs with charge-offs	33	$ 14,723	$ (4,415)	$ 10,308
TDRs, still accruing interest	-	$ -	$ -	$ -
TDRs included in non-accrual	33	14,723	(4,415)	10,308
Total	33	$ 14,723	$ (4,415)	$ 10,308

There were no commitments to lend additional funds to borrowers with TDRs as of September 30, 2011.

Credit Quality Indicators

Corporate loans and commitments are assessed for risk and assigned ratings based on various characteristics, such as the borrower’s cash flow, leverage, collateral, management characteristics, and other factors. Ratings for commercial credits are reviewed periodically. Consumer loans are assessed for credit quality based on the aging status of the loan. The assessment of consumer loans is completed at the end of each reporting period. Loans are analyzed on an individual basis when the internal credit rating is at or below a predetermined classification and the loan exceeds a fixed dollar amount.

Credit Quality Indicators by Class, Excluding Covered Loans
(Dollar amounts in thousands)

	Pass	Special Mention (1)	Substandard / Accrual (2)	Substandard / Non-accrual (3)	Total
September 30, 2011					
Commercial and industrial	$ 1,318,968	$ 75,779	$ 50,780	$ 30,507	$ 1,476,034
Agricultural	236,276	11,183	-	2,977	250,436
Commercial real estate:					
Office, retail, and industrial	1,087,461	108,694	42,432	24,728	1,263,315
Multi-family	277,658	5,847	15,612	18,196	317,313
Residential construction	50,220	29,524	15,628	20,911	116,283
Commercial construction	89,462	31,966	8,789	15,672	145,889
Other commercial real estate	732,930	81,402	17,182	45,727	877,241
Total commercial real estate	2,237,731	257,433	99,643	125,234	2,720,041
Total corporate loans	$ 3,792,975	$ 344,395	$ 150,423	$ 158,718	$ 4,446,511
December 31, 2010					
Commercial and industrial	$ 1,303,142	$ 83,259	$ 29,414	$ 50,088	$ 1,465,903
Agricultural	209,317	15,667	275	2,497	227,756
Commercial real estate:					
Office, retail, and industrial	1,026,124	123,800	34,116	19,573	1,203,613
Multi-family	307,845	20,643	15,171	6,203	349,862
Residential construction	57,209	35,950	29,409	52,122	174,690
Commercial construction	85,305	35,750	14,732	28,685	164,472
Other commercial real estate	697,971	89,247	28,534	40,605	856,357
Total commercial real estate	2,174,454	305,390	121,962	147,188	2,748,994
Total corporate loans	$ 3,686,913	$ 404,316	$ 151,651	$ 199,773	$ 4,442,653

	Performing	Non-accrual	Total
September 30, 2011			
Home equity	$ 417,197	$ 7,789	$ 424,986
1-4 family mortgages	184,939	4,648	189,587
Installment loans	43,376	34	43,410
Total consumer loans	$ 645,512	$ 12,471	$ 657,983
December 31, 2010			
Home equity	$ 437,295	$ 7,948	$ 445,243
1-4 family mortgages	156,988	3,902	160,890
Installment loans	51,615	159	51,774
Total consumer loans	$ 645,898	$ 12,009	$ 657,907

(1) Loans categorized as special mention have potential weaknesses that deserve the close attention of management. If left uncorrected, these potential weaknesses may result in the deterioration of repayment prospects or in the credit position of the Company at some future date.

(2) Loans categorized as substandard/accrual continue to accrue interest, but exhibit a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt.

These loans continue to accrue interest because they are well secured and collection of principal and interest is expected within a reasonable time.

(3) Loans categorized as substandard/non-accrual exhibit a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt and are characterized by the distinct possibility that the Company could sustain some loss if the deficiencies are not corrected. These loans have been placed on non-accrual status.

7. EARNINGS PER COMMON SHARE

Basic and Diluted Earnings per Common Share
(Amounts in thousands, except per share data)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	$ 9,116	$ 2,585	$ 30,162	$ 18,475
Preferred dividends	(2,413)	(2,412)	(7,238)	(7,237)
Accretion on preferred stock	(173)	(163)	(511)	(483)
Net income applicable to non-vested restricted shares	(96)	1	(338)	(145)
Net income applicable to common shares	$ 6,434	$ 11	$ 22,075	$ 10,610
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding (basic)	73,361	73,072	73,258	72,199
Dilutive effect of common stock equivalents	-	-	-	-
Weighted-average diluted common shares outstanding	73,361	73,072	73,258	72,199
Basic earnings per share	$ 0.09	$ 0.00	$ 0.30	$ 0.15
Diluted earnings per share	$ 0.09	$ 0.00	$ 0.30	$ 0.15
Anti-dilutive shares not included in the computation of diluted earnings per share (1)	3,561	3,799	3,637	3,832

(1) Represents outstanding stock options and common stock warrants for which the exercise price is greater than the average market price of the Company's common stock.

8. INCOME TAXES

Income Tax (Benefit) Expense
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Income (loss) before income tax expense (benefit)	$ 10,820	$ (1,387)	$ 34,737	$ 14,997
Income tax expense (benefit):				
Federal income tax expense (benefit)	$ 909	$ (3,610)	$ 3,592	$ (3,892)
State income tax expense (benefit)	795	(362)	983	414
Total income tax expense (benefit)	$ 1,704	$ (3,972)	$ 4,575	$ (3,478)
Effective income tax rate	15.7%	N/M	13.2%	N/M

N/M – Not meaningful.

Federal income tax expense (benefit) and the related effective income tax rate are primarily influenced by the amount of tax-exempt income derived from investment securities and bank-owned life insurance in relation to pre-tax income. State income tax expense (benefit) and the related effective tax rate are influenced by state tax rules relating to consolidated/combined reporting and sourcing of income and expense.

Income tax expense increased for both third quarter 2011 and the first nine months of 2011 compared to the same periods in 2010. The increases resulted from an increase in pre-tax income in the 2011 periods over that of the prior periods, as well as decreases in tax-exempt income and the impacts of the Illinois tax law change described below.

Effective January 1, 2011, the Illinois corporate income tax rate increased from 7.3% to 9.5%. This rate increase resulted in additional state tax expense, net of federal tax, of $105,000 for third quarter 2011 and $368,000 for the nine months ended September 30, 2011. Also, as a result of this rate change, the Company recorded a $1.6 million state tax benefit in first quarter 2011 related to the write-up of state deferred tax assets.

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In the ordinary course of business, the Company enters into derivative transactions as part of its overall interest rate risk management strategy to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. To achieve its interest rate risk management objectives, the Company primarily uses interest rate swaps with indices that relate to the pricing of specific assets and liabilities. The nature and volume of the derivative instruments used to manage interest rate risk depend on the level and type of assets and liabilities held and the risk management strategies for the current and anticipated interest rate environment.

All derivative instruments are recorded at fair value as either other assets or other liabilities in the Condensed Consolidated Statements of Financial Condition. Subsequent changes in a derivative's fair value are recognized in earnings unless specific hedge accounting criteria are met. The accounting policies related to derivative instruments and hedging activities are presented in Note 1, "Summary of Significant Accounting Policies," contained in the Company's 2010 10-K.

During the nine months ended September 30, 2011 and 2010, the Company hedged the fair value of fixed rate commercial real estate loans through the use of pay fixed, receive variable interest rate swaps. These derivative contracts were designated as fair value hedges and are valued using observable market prices, if available, or third party cash flow projection models. The fair value and notional amounts of the fair value hedges and the amount of hedge ineffectiveness recognized thereon were not material for any period presented.

The Company's derivative portfolio also includes derivative instruments not designated in a hedge relationship consisting of commitments to originate 1-4 family mortgage loans and foreign exchange contracts. The fair value of these instruments was not material for any period presented. The Company had no other derivative instruments as of September 30, 2011 or December 31, 2010. The Company does not enter into derivative transactions for purely speculative purposes.

10. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

Credit Commitments and Guarantees

In the normal course of business, the Company enters into a variety of financial instruments with off-balance sheet risk to meet the financing needs of its customers and to conduct lending activities. These instruments include commitments to extend credit and standby and commercial letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Condensed Consolidated Statements of Financial Condition.

Contractual or Notional Amounts of Financial Instruments
(Dollar amounts in thousands)

	September 30, 2011	December 31, 2010
Commitments to extend credit:		
Home equity lines	$ 262,756	$ 275,826
Credit card lines to businesses	18,908	26,376
1-4 family real estate construction	26,411	26,682
Commercial real estate	161,255	175,608
Commercial and industrial	602,610	553,168

Overdraft protection program (1)	176,754	169,824
All other commitments	124,500	97,299
Total commitments	$ 1,373,194	$ 1,324,783
Letters of credit:		
1-4 family real estate construction	$ 9,344	$ 10,551
Commercial real estate	51,155	54,896
All other	74,223	74,594
Total letters of credit	$ 134,722	$ 140,041
Unamortized fees associated with letters of credit (2) (3)	$ 835	$ 696
Remaining weighted-average term (in months)	9.5	12.2
Remaining lives (in years)	0.1 to 12.8	0.1 to 9.5

	September 30, 2011		December 31, 2010	
Recourse on securitized assets:				
Unpaid principal balance of assets securitized	$	7,248	$	7,424
Cap on recourse obligation		2,208		2,208
Carrying value of recourse obligation (2)		148		148

(1)Federal regulation regarding electronic fund transfers require consumers to affirmatively consent to the institution's overdraft service for automated teller machine and one-time debit card transactions before overdraft fees may be assessed on the account. Consumers are provided a specific line for the amount they may overdraw.
(2)Included in other liabilities in the Condensed Consolidated Statements of Financial Condition.
(3)The Company will amortize these amounts into income over the commitment period.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party and are most often issued in favor of a municipality where construction is taking place to ensure the borrower adequately completes the construction.

The maximum potential future payments guaranteed by the Company under standby letters of credit arrangements are equal to the contractual amount of the commitment. If a commitment is funded, the Company may seek recourse through the liquidation of the underlying collateral including real estate, production plants and property, marketable securities, or receipt of cash.

Pursuant to the securitization of certain 1-4 family mortgage loans in 2004, the Company is contractually obligated to repurchase at recorded value any non-performing loans, defined as loans past due greater than 90 days. According to the securitization agreement, the Company's recourse obligation will end on November 30, 2011. For the nine months ended September 30, 2010, there were $114,000 of recourse loans repurchased and $36,000 in charge-offs of recourse loans. There were no repurchases or charge-offs of recourse loans for the nine months ended September 30, 2011.

Legal Proceedings

In August 2011, the Company's wholly-owned banking subsidiary, First Midwest Bank (the "Bank") was named in a purported class action lawsuit filed in the Circuit Court of Cook County, Illinois on behalf of certain of the Bank's customers who incurred overdraft fees. The lawsuit is based on the Bank's practices pursuant to debit card transactions, and alleges, among other things, that these practices have resulted in customers being unfairly assessed overdraft fees. The lawsuit seeks an unspecified amount of damages and other relief, including restitution. The Company believes that the complaint contains significant inaccuracies and factual misstatements and that the Bank has meritorious defenses. As a result, the Bank intends to vigorously defend itself against the allegations in the lawsuit.

As of September 30, 2011, there were certain other legal proceedings pending against the Company and its subsidiaries in the ordinary course of business. The Company does not believe that liabilities, individually or in the aggregate, arising from legal proceedings, if any, would have a material adverse effect on the consolidated financial condition of the Company as of September 30, 2011.

11. FAIR VALUE

The Company measures, monitors, and discloses certain of its assets and liabilities at fair value in accordance with fair value accounting guidance. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Fair value is used on a recurring basis to account for trading securities, securities available-for-sale, mortgage servicing rights, derivative assets, and derivative liabilities. It is also used on an annual basis to disclose the fair value of pension plan assets. In addition, fair value is used on a non-recurring basis (i) to apply lower-of-cost-or-market accounting to OREO, loans held-for-sale (excluding mortgage loans held-for-sale), and assets held-for-sale; (ii) to evaluate assets or liabilities for impairment, including collateral-dependent impaired loans, goodwill, and other intangibles; and (iii) for disclosure purposes.

Depending upon the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. GAAP establishes a fair value hierarchy that prioritizes the inputs used to measure fair value into three broad levels based on the observability of the inputs. The three levels of the fair value hierarchy are defined as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.

- Level 2 – Observable inputs other than level 1 prices, such as quoted prices for similar instruments, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The categorization of an asset or liability within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Transfers between levels of the fair value hierarchy are recognized on the actual date of circumstance that resulted in the transfer. There were no transfers of assets or liabilities between levels of the fair value hierarchy during the periods presented.

Assets and Liabilities Measured at Fair Value

The following table provides the hierarchy level and fair value for each class of assets and liabilities measured at fair value.

Fair Value Measurements
(Dollar amounts in thousands)

	September 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value on a recurring basis				
Assets:				
Trading securities:				
Money market funds	$ 1,113	$ -	$ -	$ 1,113
Mutual funds	12,195	-	-	12,195
Total trading securities	13,308	-	-	13,308
Securities available-for-sale:				
U.S. agency securities	-	5,103	-	5,103
CMOs	-	337,448	-	337,448
Other residential mortgage-backed securities	-	98,387	-	98,387
Municipal securities	-	484,950	-	484,950
CDOs	-	-	14,217	14,217
Corporate debt securities	-	27,666	-	27,666
Hedge fund investment	-	1,620	-	1,620
Other equity securities	41	998	-	1,039
Total securities available-for-sale	41	956,172	14,217	970,430
Mortgage servicing rights (1)	-	-	932	932
Total assets	$ 13,349	$ 956,172	$ 15,149	$ 984,670
Liabilities:				
Derivative liabilities (1)	$ -	$ 1,877	$ -	$ 1,877
Assets measured at fair value on a non-recurring basis				
Collateral-dependent impaired loans (2)	$ -	$ -	$ 80,395	$ 80,395
OREO (3)	-	-	45,457	45,457
Loans held-for-sale	-	-	4,620	4,620
Assets held-for-sale (4)	-	-	7,945	7,945
Total assets	$ -	$ -	$ 138,417	$ 138,417

Refer to the following page for footnotes.

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value on a recurring basis				
Assets:				
Trading securities:				
Money market funds	$ 1,196	$ -	$ -	$ 1,196
Mutual funds	14,086	-	-	14,086
Total trading securities	15,282	-	-	15,282
Securities available-for-sale:				
U.S. agency securities	-	17,886	-	17,886
CMOs	-	379,589	-	379,589
Other residential mortgage-backed securities	-	106,451	-	106,451
Municipal securities	-	503,991	-	503,991
CDOs	-	-	14,858	14,858
Corporate debt securities	-	32,345	-	32,345
Hedge fund investment	-	1,683	-	1,683
Other equity securities	38	961	-	999
Total securities available-for-sale	38	1,042,906	14,858	1,057,802
Mortgage servicing rights (1)	-	-	942	942
Total assets	$ 15,320	$ 1,042,906	$ 15,800	$ 1,074,026
Liabilities:				
Derivative liabilities (1)	$ -	$ 1,833	$ -	$ 1,833
Assets measured at fair value on a non-recurring basis				
Collateral-dependent impaired loans (2)	$ -	$ -	$ 125,258	$ 125,258
OREO (3)	-	-	53,439	53,439
Total assets	$ -	$ -	$ 178,697	$ 178,697

(1)Mortgage servicing rights are included in other assets, and derivative liabilities are included in other liabilities in the Condensed Consolidated Statements of Financial Condition.

(2)Represents the carrying value of loans for which adjustments are based on the appraised or market-quoted value of the collateral, net of selling costs. Collateral-dependent loans for which no fair value adjustments were necessary during the nine months ended September 30, 2011 are not included.

(3)Represents the estimated fair value, net of selling costs, based on appraised value and includes covered OREO.

(4)Included in premises, furniture, and equipment in the Condensed Consolidated Statements of Financial Condition.

Valuation Methodologies

The following describes the valuation methodologies used by the Company for assets and liabilities measured at fair value.

Trading Securities – Trading securities represent diversified investment securities held in a rabbi trust and are invested in money market and mutual funds. The fair value of these money market and mutual funds is based on quoted market prices in active exchange markets and is classified in level 1 of the fair value hierarchy. All trading securities are reported at fair value, with unrealized gains and losses included in other noninterest income.

Securities Available-for-Sale – Securities available-for-sale are primarily fixed income instruments that are not quoted on an exchange, but may be traded in active markets. The fair value of these securities is based on quoted prices in active markets obtained from external pricing services or dealer market participants and is classified in level 2 of the fair value hierarchy. The Company has evaluated the methodologies used by its external pricing services to develop the fair values to determine whether such valuations are representative of an exit price in the Company's principal markets. Examples of such securities measured at fair value are U.S. agency securities, municipal bonds, CMOs, and other mortgage-backed securities.

The following table provides inputs used in the evaluation of the Company's CMOs and other mortgage-backed securities.

	Collateralized Mortgage Obligations	Other Mortgage-Backed Securities
Weighted-average coupon rate	4.6%	2.3%
Weighted-average maturity (in years)	2.0	3.6
Information on underlying residential mortgages:		
Origination dates	2000 to 2010	2000 to 2010
Weighted-average coupon rate	5.7%	5.9%
Weighted-average maturity (in years)	7.6	9.3

The Company's hedge fund investment is also classified in level 2 of the fair value hierarchy. The fair value is derived from monthly and annual financial statements provided by hedge fund management. The majority of the hedge fund's investment portfolio is held in securities that are freely tradable and are listed on national securities exchanges.

In certain cases, where there is limited market activity or less transparent inputs to the valuation, securities are classified in level 3 of the fair value hierarchy. For instance, in the valuation of CDOs, the determination of fair value requires benchmarking to similar instruments or analyzing default and recovery rates. Due to the illiquidity in the secondary market for the Company's CDOs, the Company estimates the value of these securities using discounted cash flow analyses with the assistance of a structured credit valuation firm. The valuation for each of the CDOs relies on historical financial data for the obligors of the underlying collateral. The valuation firm performs a credit analysis of each of the entities comprising the collateral underlying each CDO in order to estimate the entities' likelihood of default on their trust-preferred obligations. Cash flows are modeled according to the contractual terms of the CDO, discounted to their present values, and are used to derive the estimated fair value of the individual CDO. The discount rates used in the discounted cash flow analyses range from LIBOR plus 1,300 to LIBOR plus 1,400 basis points, depending upon the specific CDO and reflects the higher risk inherent in these securities given the current market environment.

Carrying Value of Level 3 Securities Available-for-Sale
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance at beginning of period	$ 16,487	$ 13,664	$ 14,858	$ 11,728
Total income (loss):				
Included in earnings (1)	(177)	(852)	(177)	(4,664)
Included in other comprehensive income	(2,093)	612	(464)	6,360
Balance at end of period	$ 14,217	$ 13,424	$ 14,217	$ 13,424
Change in unrealized losses recognized in earnings relating to securities still held at end of period	$ (177)	$ (852)	$ (177)	$ (4,664)

(1)Included in securities gains, net in the Condensed Consolidated Statements of Income.

Mortgage Servicing Rights – The Company records its mortgage servicing rights at fair value and includes them in other assets in the Condensed Consolidated Statements of Financial Condition. Mortgage servicing rights do not trade in an active market with readily observable prices. Accordingly, the Company determines the fair value of mortgage servicing rights by estimating the present value of the future cash flows associated with the mortgage loans being serviced. Key economic assumptions used in measuring the fair value of mortgage servicing rights at September 30, 2011 included prepayment speeds, maturities, and discount rates. While market-based data is used to determine the assumptions, the Company incorporates its own estimates of the assumptions market participants would use in determining the fair value of mortgage servicing rights, which results in a level 3 classification in the fair value hierarchy.

Carrying Value of Mortgage Servicing Rights
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance at beginning of period	$ 840	$ 1,133	$ 942	$ 1,238
Total (losses) gains included in earnings (1):				
Due to changes in valuation inputs and assumptions (2)	134	21	124	44
Other changes in fair value (3)	(42)	(64)	(134)	(192)
Balance at end of period	$ 932	$ 1,090	$ 932	$ 1,090
Key economic assumptions used in measuring fair value, at end of period:				
Weighted-average prepayment speed	11.9%	15.5%	11.9%	15.5%
Weighted-average discount rate	11.6%	11.4%	11.6%	11.4%
Weighted-average maturity, in months	198.8	206.1	198.8	206.1
Contractual servicing fees earned during the period (1)	$ 58	$ 72	$ 181	$ 233

	September 30, 2011	December 31, 2010
Total amount of loans being serviced for the benefit of others at end of period (4)	$ 83,573	$ 114,720

(1) Included in other service charges, commissions, and fees in the Condensed Consolidated Statements of Income and relate to mortgage servicing rights still held at the end of the period.
(2) Principally reflects changes in prepayment speed assumptions.
(3) Primarily represents changes in expected cash flows over time due to payoffs and paydowns.
(4) These loans are serviced for and owned by third parties and are not included in the Condensed Consolidated Statements of Financial Condition.

Derivative Assets and Derivative Liabilities –The interest rate swaps entered into by the Company are executed in the dealer market, and pricing is based on market quotes obtained from the counterparty that transacted the derivative contract. The market quotes were developed by the counterparty using market observable inputs, which primarily include LIBOR for swaps. Therefore, derivatives are classified in level 2 of the fair value hierarchy. For its derivative assets and liabilities, the Company also considers non-performance risk, including the likelihood of default by itself and its counterparties, when evaluating whether the market quotes from the counterparty are representative of an exit price. The Company has a policy of executing derivative transactions only with counterparties above a certain credit rating. Credit risk is also mitigated through the pledging of collateral when certain thresholds are reached.

Collateral-Dependent Impaired Loans – The carrying value of impaired loans is disclosed in Note 6, "Past Due Loans, Allowance for Credit Losses, and Impaired Loans." The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded in the form of specific reserves or charge-offs

on these loans to reflect (i) specific reserves or partial charge-offs that are based on the current appraised value of the underlying collateral or (ii) the full charge-off of the loan's carrying value. The fair value adjustments are primarily determined by current appraised values of underlying collateral, net of estimated selling costs. For collateral-dependent impaired loans, new appraisals are required every six months for construction loans, and annually for all other commercial real estate loans. In limited circumstances, such as cases of outdated appraisals, the appraised values may be reduced by a certain percentage depending upon the specific facts and circumstances or an internal valuation may be used when the underlying collateral is located in areas where comparable sales data is limited, outdated, or unavailable. Accordingly, collateral-dependent impaired loans are classified in level 3 of the fair value hierarchy.

Other Real Estate Owned – OREO consists of properties acquired through foreclosure in partial or total satisfaction of certain loans. Upon initial transfer into OREO, a current appraisal is required (generally less than six months old for residential and commercial land and less than one year old for all other commercial property). Properties are recorded at the lower of the recorded investment in the loans for which the properties previously served as collateral or the fair value, which represents the current appraised value of the properties less estimated selling costs. Fair value assumes an orderly disposition except where a specific disposition strategy is expected, which would require the use of other appraised values, such as forced liquidation or as-completed/stabilized values.

In certain circumstances, the current appraised value may not represent an accurate measurement of the property's current fair value due to imprecision, subjectivity, outdated market information, or other factors. In these cases, the fair value is determined based on the lower of the (i) current appraised value, (ii) internal valuation, (iii) current listing price, or (iv) signed sales contract. Any appraisal that is greater than twelve months old is adjusted to account for estimated declines in the real estate market until an updated appraisal can be obtained. Given these valuation methods, OREO is classified in level 3. Any write-downs in the carrying value of a property at the time of initial transfer into OREO are charged against the allowance for credit losses.

Subsequent to the initial transfer, periodic impairment analyses of OREO are performed and new appraisals are obtained annually unless circumstances warrant an earlier appraisal. Quarterly impairment analyses take into consideration current real estate market trends and adjustments to listing prices. Any write-downs of the properties subsequent to initial transfer, as well as gains or losses on disposition and income or expense from the operations of OREO, are recognized in operating results in the period in which they occur.

Loans Held-for-Sale –The loans held-for-sale consist of two construction loans. During third quarter 2011, the Company determined that the loans met the held-for-sale criteria and transferred them into the held-for-sale category at the lower of the recorded investment in the loan or the estimated fair value, less costs to sell. The fair value was determined by the sales contract price. Accordingly, the loans held-for-sale are classified in level 3 of the fair value hierarchy.

Assets Held-for-Sale – In second quarter 2011, the Company entered into an agreement to sell property held for expansion and classified it as held-for-sale. Based on the sales contract price, the Company wrote-down the book value of the property and classified it in level 3 of the fair value hierarchy. The sale of the property is expected to close in fourth quarter 2011.

Fair Value Measurements Recorded for
Assets Measured at Fair Value on a Non-Recurring Basis
(Dollar amounts in thousands)

	Quarter Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Charged to Allowance for Loan Losses	Charged to Earnings	Charged to Allowance for Loan Losses	Charged to Earnings
Collateral-dependent impaired loans	$ 26,137	$ -	$ 62,406	$ -
OREO	-	674	-	3,309
Loans held-for-sale	1,596	-	1,796	-
Assets held-for-sale	-	75	-	671

Goodwill – Goodwill represents the excess of purchase price over the fair value of net assets acquired using the purchase method of accounting and is subject to impairment testing, which requires a significant degree of management judgment. Goodwill is tested at least annually for impairment or more often if events or circumstances between annual tests indicate that there may be impairment.

Due to volatile market conditions and a decline in the Company's market capitalization, management determined that an interim impairment test of goodwill as of September 30, 2011 was appropriate. The testing was performed by

comparing the carrying value of the reporting unit with management's estimate of the fair value of the reporting unit, which is based on a discounted cash flow analysis. The interim testing did not indicate that an impairment charge was required.

If the testing had resulted in impairment, the Company would have classified goodwill as a level 3 nonrecurring fair value measurement. Additional information regarding goodwill and impairment policies can be found in Note 8, "Goodwill and Other Intangible Assets," contained in the Company's 2010 Form 10-K.

Fair Value Disclosure of Other Assets and Liabilities

GAAP requires disclosure of the estimated fair values of certain financial instruments, both assets and liabilities, on and off-balance sheet, for which it is practical to estimate the fair value. Since the estimated fair values provided herein exclude disclosure of the fair value of certain other financial instruments and all non-financial instruments, any aggregation of the estimated fair value amounts presented would not represent the underlying value of the Company. Examples of non-financial

instruments having significant value include the future earnings potential of significant customer relationships and the value of the Company's trust division operations and other fee-generating businesses. In addition, other significant assets including premises, furniture, and equipment and goodwill are not considered financial instruments and, therefore, have not been valued.

Various methodologies and assumptions have been utilized in management's determination of the estimated fair value of the Company's financial instruments, which are detailed below. The fair value estimates are made at a discrete point in time based on relevant market information. Since no market exists for a significant portion of these financial instruments, fair value estimates are based on judgments regarding future expected economic conditions, loss experience, and risk characteristics of the financial instruments. These estimates are subjective, involve uncertainties, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

In addition to the valuation methodology explained above for financial instruments recorded at fair value, the following methods and assumptions were used in estimating the fair value of financial instruments that are carried at cost in the Condensed Consolidated Statements of Financial Condition.

Short-Term Financial Assets and Liabilities – For financial instruments with a shorter-term or with no stated maturity, prevailing market rates, and limited credit risk, the carrying amounts approximate fair value. Those financial instruments include cash and due from banks, federal funds sold and other short-term investments, mortgages held-for-sale, accrued interest receivable, and accrued interest payable.

Securities Held-to-Maturity – The fair value of securities held-to-maturity is based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans, net of Allowance for Loan Losses – The fair value of loans is estimated using present value techniques by discounting the future cash flows of the remaining maturities of the loans. Prepayment assumptions were considered based on historical experience and current economic and lending conditions. The discount rate was based on the LIBOR yield curve, with rate adjustments for liquidity and credit risk.

Covered Loans (included in Loans, net of Allowance for Loan Losses) – The fair value of the covered loan portfolio is determined by discounting the expected cash flows at a market interest rate based on certain input assumptions. The market interest rate (discount rate) is derived from LIBOR swap rates over the expected weighted-average life of the asset. The expected cash flows are based on contractual terms and default timing assumptions.

FDIC Indemnification Asset – The fair value of the FDIC indemnification asset is calculated by discounting the cash flows expected to be received from the FDIC. These cash flows are estimated by multiplying expected losses by the reimbursement rates set forth in the Agreements.

Investment in Bank-Owned Life Insurance – The fair value of investments in bank-owned life insurance is based on each policy's respective cash surrender value.

Deposit Liabilities – The fair values disclosed for demand deposits, savings deposits, NOW accounts, and money market deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair value for fixed-rate time deposits was estimated using present value techniques by discounting the future cash flows based on the LIBOR yield curve, plus or minus the spread associated with current pricing.

Borrowed Funds – The fair value of repurchase agreements and FHLB advances is estimated by discounting the agreements based on maturities using the rates currently offered for repurchase agreements of similar remaining maturities. The carrying amounts of federal funds purchased, federal term auction facilities, and other borrowed funds approximate their fair value due to their short-term nature.

Subordinated Debt – The fair value of subordinated debt was determined using available market quotes.

Standby Letters of Credit – The fair value of standby letters of credit represent deferred fees arising from the related off-balance sheet financial instruments. These deferred fees approximate the fair value of these instruments and are based on several factors, including the remaining terms of the agreement and the credit standing of the customer.

Commitments – The Company has estimated the fair value of commitments outstanding to be immaterial based on the following factors: (i) the limited interest rate exposure posed by the commitments outstanding due to their variable nature, (ii)

the general short-term nature of the commitment periods entered into, (iii) termination clauses provided in the agreements, and (iv) the market rate of fees charged.

Financial Instruments
(Dollar amounts in thousands)

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$ 116,003	$ 116,003	$ 102,495	$ 102,495
Interest-bearing deposits in other banks	946,330	946,330	483,281	483,281
Loans-held-for-sale	4,620	4,620	236	236
Trading securities	13,308	13,308	15,282	15,282
Securities available-for-sale	970,430	970,430	1,057,802	1,057,802
Securities held-to-maturity	74,375	78,952	81,320	82,525
Loans, net of allowance for loan losses	5,265,450	5,274,858	5,329,717	5,323,830
FDIC indemnification asset	63,508	63,508	95,899	95,899
Accrued interest receivable	31,047	31,047	29,953	29,953
Investment in bank-owned life insurance	205,886	205,886	197,644	197,644
Financial Liabilities:				
Deposits	$6,626,608	$6,627,430	$6,511,476	$6,512,626
Borrowed funds	386,429	389,807	303,974	306,703
Subordinated debt	137,751	130,245	137,744	122,261
Accrued interest payable	5,581	5,581	4,557	4,557
Derivative liabilities	1,877	1,877	1,833	1,833
Standby letters of credit	835	835	696	696

12. SUBSEQUENT EVENTS

As discussed in Note 12, “Material Transactions Affecting Stockholders’ Equity” contained in the Company’s 2010 10-K, in 2008, the Company issued $193.0 million of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, and a related warrant to the Treasury under the Treasury’s Capital Purchase Program (“CPP”) enacted under the Troubled Asset Relief Program (“TARP”) and the Emergency Economic Stabilization Act of 2008.

In October 2011, the Company received approval from the Treasury to redeem all of the $193.0 million of preferred stock issued to the Treasury. There are no conditions or qualifications of any kind associated with the approval. The Company anticipates that the redemption will be funded through a combination of existing liquid assets and proceeds from the completion of one or more debt offerings. The size, structure, and timing of any debt offering will depend upon overall market conditions.

Also, in October 2011, the Company entered into a purchase agreement with Old National Bank (“Old National”) to purchase certain deposits that Old National recently acquired in an FDIC-assisted transaction. The transaction involves approximately $185 million in deposits, half of which are core transactional deposits, and one banking facility located in the market in which the Company operates. The transaction is expected to close in December 2011 subject to regulatory approval, with final purchase terms dependent upon deposits remaining as of the closing date.

The Company has evaluated the impact of events that have occurred subsequent to September 30, 2011 through the date its consolidated financial statements were issued. Based on the evaluation, management does not believe any other subsequent events have occurred that would require further disclosure or adjustment to the financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to address the significant factors affecting our results of operations and financial condition for the quarters and nine-month periods ended September 30, 2011 and 2010. When we use the terms "First Midwest," the "Company," "we," "us," and "our," we mean First Midwest Bancorp, Inc., a Delaw Corporation, and its consolidated subsidiaries. When we use the term "Bank," we are referring to our wholly owned banking subsidiary, First Midwest Bank. Management's discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes presented elsewhere in this report, as well as in our 2010 Annual Report on Form 10-K ("2010 10-K"). Results of operations for the quarter and nine months ended September 30, 2011 are not necessarily indicative of results to be expected for the year ending December 31, 2011. Unless otherwise stated, all earnings per common share data included in this section and throughout the remainder of this discussion are presented on a diluted basis.

PERFORMANCE OVERVIEW

General Overview

Our banking network is located primarily in suburban metropolitan Chicago with additional locations in central and western Illinois and eastern Iowa. We provide a full range of business and retail banking and trust and advisory services through approximately 100 banking offices. Our primary sources of revenue are net interest income and fees from financial services provided to customers. Our largest expenses are interest on deposits and compensation expense. Business volumes tend to be influenced by overall economic factors affecting our market, including market interest rates, business spending, consumer confidence, competitive conditions within the marketplace, and certain seasonal factors.

Table 1
Selected Financial Data (1)
(Dollar and share amounts in thousands, except per share data)

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2011	2010	% Change	2011	2010	% Change
Operating Results						
Interest income	$ 80,175	$ 82,338	(2.6)	$ 242,754	$ 246,391	(1.5)
Interest expense	(9,640)	(12,125)	(20.5)	(30,212)	(38,621)	(21.8)
Net interest income	70,535	70,213	0.5	212,542	207,770	2.3
Fee-based revenues	24,417	22,456	8.7	70,325	64,374	9.2
Other noninterest (loss) income	(275)	1,921	(114.3)	2,457	3,153	(22.1)
Noninterest expense, excluding losses realized on other real estate owned ("OREO") and costs associated with Federal Deposit Insurance Corporation ("FDIC")-assisted transactions (2)	(61,270)	(59,665)	2.7	(186,166)	(173,889)	7.1
Pre-tax, pre-provision operating earnings (3)	33,407	34,925	(4.3)	99,158	101,408	(2.2)
Provision for loan losses	(20,425)	(33,576)	(39.2)	(58,680)	(73,452)	(20.1)
Securities gains, net	626	7,340	(91.5)	2,697	15,415	(82.5)
Securities impairment losses	(177)	(964)	(81.6)	(177)	(4,861)	(96.4)
Gain on FDIC-assisted transaction	-	-	-	-	4,303	(100.0)
Integration costs associated with FDIC-assisted transactions (2)	-	(847)	(100.0)	-	(2,748)	(100.0)
Write-downs of OREO (2)	(674)	(5,800)	(88.4)	(3,309)	(11,410)	(71.0)
Losses on sales of OREO, net (2)	(1,937)	(2,465)	(21.4)	(4,952)	(13,658)	(63.7)
Income (loss) before income tax	10,820	(1,387)	(880.1)	34,737	14,997	131.6
Income tax (expense) benefit	(1,704)	3,972	(142.9)	(4,575)	3,478	N/M
Net income	9,116	2,585	252.6	30,162	18,475	63.3
Preferred dividends and accretion on preferred stock	(2,586)	(2,575)	0.4	(7,749)	(7,720)	0.4
Net income applicable to non-vested	(96)	1	N/M	(338)	(145)	133.1

restricted shares									
Net income applicable to common shares	$	6,434	$	11	N/M	$	22,075	$	10,610	108.1
Weighted average diluted shares outstanding		73,361		73,072			73,258		72,199	
Diluted earnings per common share	$	0.09	$	0.00		$	0.30	$	0.15	
Performance Ratios (1)										
Return on average common equity		2.67%		0.00%			3.13%		1.49%	
Return on average assets		0.44%		0.13%			0.49%		0.31%	
Net interest margin – tax equivalent		3.97%		4.05%			4.07%		4.18%	
Efficiency ratio		60.27%		59.91%			60.95%		58.76%	

N/M – Not meaningful.

(1) All ratios are presented on an annualized basis.
(2) For further discussion of losses realized on OREO and integration costs associated with FDIC-assisted transactions, see the section titled “Noninterest Expense.”
(3) Our accounting and reporting policies conform to U.S. generally accepted accounting principles (“GAAP”) and general practice within the banking industry. As a supplement to GAAP, we have provided this non-GAAP performance result. We believe that this non-GAAP financial measure is useful because it allows investors to assess our operating performance. Although this non-GAAP financial measure is intended to enhance investors’ understanding of our business and performance, this non-GAAP financial measure should not be considered an alternative to GAAP. This measure may differ from other similarly named measures used by other companies.

	September 30, 2011	December 31, 2010	September 30, 2010	September 30, 2011 Change From December 31, 2010	September 30, 2011 Change From September 30, 2010
Balance Sheet Highlights					
Total assets	$ 8,380,174	$ 8,138,302	$ 8,367,823	$ 241,872	$ 12,351
Total loans, excluding covered loans	5,104,494	5,100,560	5,164,666	3,934	(60,172)
Total loans, including covered loans	5,394,241	5,472,289	5,560,787	(78,048)	(166,546)
Total deposits	6,626,608	6,511,476	6,677,259	115,132	(50,651)
Transactional deposits	4,899,216	4,519,492	4,533,662	379,724	365,554
Loans to deposits ratio	81.4%	84.0%	83.3%		
Transactional deposits to total deposits	73.9%	69.4%	67.9%		

	September 30, 2011	December 31, 2010	September 30, 2010	September 30, 2011 Change From December 31, 2010	September 30, 2011 Change From September 30, 2010
Asset Quality Highlights (1)					
Non-accrual loans	$ 171,189	$ 211,782	$ 211,366	$ (40,593)	$ (40,177)
90 days or more past due loans (still accruing interest)	6,008	4,244	9,136	1,764	(3,128)
Total non-performing loans	177,197	216,026	220,502	(38,829)	(43,305)
Troubled debt restructurings ("TDRs") (still accruing interest)	7,033	22,371	11,002	(15,338)	(3,969)
Other real estate owned	23,863	31,069	52,044	(7,206)	(28,181)
Total non-performing assets	$ 208,093	$ 269,466	$ 283,548	$ (61,373)	$ (75,455)
30-89 days past due loans (still accruing interest)	$ 34,061	$ 23,646	$ 41,590	$ 10,415	$ (7,529)
Allowance for credit losses	$ 131,291	$ 145,072	$ 145,019	$ (13,781)	$ (13,728)
Allowance for credit losses as a percent of loans	2.57%	2.84%	2.81%		

(1)Excludes covered loans and covered OREO. For a discussion of covered assets, refer to Note 5 of "Notes to Condensed Consolidated Financial Statements" in Item 1 of this Form 10-Q. Asset quality, including covered loans and covered OREO, is included in the section titled "Loan Portfolio and Credit Quality" elsewhere in this report.

Net income for third quarter 2011 was $9.1 million, before adjustments for preferred dividends and accretion and non-vested restricted shares, and $6.4 million, or $0.09 per share, applicable to common shareholders after such adjustments. This compares to net income of $2.6 million and net income applicable to common shareholders of $11,000, or $0.00 per share, for third quarter 2010. For the first nine months of 2011, net income was $30.2 million, with $22.1 million, or $0.30 per share, applicable to common shareholders compared to net income of $18.5 million and net income applicable to common shareholders of $10.6 million, or $0.15 per share, for the same period in 2010.

Pre-tax, pre-provision operating earnings of $33.4 million for third quarter 2011 were down 4.3% compared to third quarter 2010. For the first nine months of 2011, pre-tax, pre-provision earnings were $99.2 million, down 2.2% compared to the same period in 2010. The decline for both periods resulted from higher loan remediation costs and expanded sales staff, including additional staff employed through an FDIC-assisted transaction, partially offset by higher fee-based revenues and net interest income. A discussion of net interest income and noninterest income and expense is presented in the following section titled "Earnings Performance."

Non-performing assets, excluding covered loans and covered OREO, were $208.1 million at September 30, 2011, decreasing $61.4 million, or 22.8%, from December 31, 2010. The reduction was substantially due to remediation activities, dispositions, and charge-offs, partially offset by loans downgraded to non-accrual status. For a detailed discussion of non-performing assets, refer to the section titled "Loan Portfolio and Credit Quality" elsewhere in this report.

EARNINGS PERFORMANCE

Net Interest Income

Net interest income is our primary source of revenue. Net interest income equals the difference between interest income plus fees earned on interest-earning assets and interest expense incurred on interest-bearing liabilities. The level of interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income. Net interest margin represents net interest income as a percentage of total average interest-earning assets. The accounting policies underlying the recognition of interest income on loans, securities, and other interest-earning assets are presented in Note 1 of "Notes to Condensed Consolidated Financial Statements" contained in our 2010 10-K.

Our accounting and reporting policies conform to GAAP and general practice within the banking industry. For purposes of this discussion, both net interest income and net interest margin have been adjusted to a fully tax-equivalent basis to more appropriately compare the returns on certain tax-exempt loans and securities to those on taxable interest-earning assets. Although we believe that these non-GAAP financial measures enhance investors' understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP. The effects of these adjustments are presented at the end of Tables 2 and 3. This measure may differ from other similarly named measures presented by other companies.

Table 2 summarizes our average interest-earning assets and interest-bearing liabilities for the quarters ended September 30, 2011 and 2010, the related interest income and interest expense for each earning asset category and funding source, and the average interest rates earned and paid thereon. Table 2 also details changes from the prior year in income generated by earning assets and expense incurred for each funding source and analyzes the extent to which any changes are attributable to volume and rate changes. Table 3 presents this same information for the nine months ended September 30, 2011 and 2010.

Table 2
Net Interest Income and Margin Analysis
(Dollar amounts in thousands)

	Quarters Ended September 30, 2011			Quarters Ended September 30, 2010			Attribution of Change in Net Interest Income (1)		
	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)	Volume	Yield/ Rate	Total
Assets:									
Federal funds sold and other short-term investments	$ 741,782	$ 463	0.25	$ 451,673	$ 344	0.30	$ 165	$ (46)	$ 119
Trading securities	16,248	23	0.57	13,120	25	0.76	301	(303)	(2)
Investment securities (2)	1,057,075	11,604	4.39	1,178,794	15,583	5.29	(1,506)	(2,473)	(3,979)
Federal Home Loan Bank ("FHLB") and Federal Reserve Bank stock	58,187	331	2.28	60,998	339	2.22	(16)	8	(8)
Loans, excluding covered loans (2)	5,136,130	64,509	4.98	5,207,419	65,806	5.01	(760)	(537)	(1,297)
Covered interest-earning assets (3)	387,635	6,640	6.80	367,727	4,294	4.63	243	2,103	2,346
Total loans	5,523,765	71,149	5.11	5,575,146	70,100	4.99	(517)	1,566	1,049
Total interest-earning assets (2)	7,397,057	83,570	4.49	7,279,731	86,391	4.72	(1,573)	(1,248)	(2,821)
Cash and due from banks	120,624			165,743					
Allowance for loan losses	(143,443)			(155,312)					
Other assets	855,542			913,455					
Total assets	$ 8,229,780			$ 8,203,617					
Liabilities and Stockholders' Equity:									
Savings deposits	$ 940,151	386	0.16	$ 832,672	561	0.27	86	(261)	(175)
NOW accounts	1,129,893	279	0.10	1,173,347	469	0.16	(16)	(174)	(190)
Money market deposits	1,236,546	696	0.22	1,226,314	1,449	0.47	12	(765)	(753)
Time deposits	1,731,413	5,293	1.21	2,022,721	6,570	1.29	(907)	(370)	(1,277)
Borrowed funds	262,001	706	1.07	337,905	797	0.94	(251)	160	(91)
Subordinated debt	137,749	2,280	6.57	137,740	2,279	6.56	-	1	1
	5,437,753	9,640	0.70	5,730,699	12,125	0.84	(1,076)	(1,409)	(2,485)

Total interest-bearing liabilities									
Demand deposits	1,569,671			1,242,257					
Other liabilities	73,808			67,000					
Stockholders' equity - common	955,548			970,661					
Stockholders' equity - preferred	193,000			193,000					
Total liabilities and stockholders' equity	$ 8,229,780			$ 8,203,617					
Net interest income/margin (2)		$ 73,930	3.97		$ 74,266	4.05	$ (497)	$ 161	$ (336)
Net interest income (GAAP)		$ 70,535			$ 70,213				
Tax equivalent adjustment		3,395			4,053				
Tax-equivalent net interest income		$ 73,930			$ 74,266				

(1) For purposes of this table, changes which are not due solely to volume changes or rate changes are allocated to such categories on the basis of the percentage relationship of each to the sum of the two.

(2) Interest income and yields are presented on a tax-equivalent basis, assuming a federal income tax rate of 35%.

(3) Covered interest-earning assets consist of loans acquired through FDIC-assisted transactions and the related FDIC indemnification asset. For additional discussion, please refer to the section titled "Covered Assets."

Table 3
Net Interest Income and Margin Analysis
(Dollar amounts in thousands)

	Nine Months Ended September 30, 2011			Nine Months Ended September 30, 2010			Attribution of Change in Net Interest Income (1)		
	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)	Volume	Yield/ Rate	Total
Assets:									
Federal funds sold and other short-term investments	$ 592,995	$ 1,096	0.25	$ 265,843	$ 547	0.28	$ 599	$ (50)	$ 549
Trading securities	15,961	76	0.63	13,841	82	0.79	22	(28)	(6)
Investment securities (2)	1,124,360	37,585	4.46	1,229,920	51,054	5.53	(4,121)	(9,348)	(13,469)
FHLB and Federal Reserve Bank stock	59,745	1,028	2.29	59,759	1,002	2.24	-	26	26
Loans, excluding covered loans (2)	5,106,955	191,331	5.01	5,203,197	196,422	5.05	(3,879)	(1,212)	(5,091)
Covered interest-earning assets (3)	417,120	22,117	7.09	270,681	9,854	4.87	6,651	5,612	12,263
Total loans	5,524,075	213,448	5.17	5,473,878	206,276	5.04	2,772	4,400	7,172
Total interest-earning assets (2)	7,317,136	253,233	4.63	7,043,241	258,961	4.91	(728)	(5,000)	(5,728)
Cash and due from banks	120,902			149,763					
Allowance for loan losses	(146,512)			(153,789)					
Other assets	874,242								