

FIRST MIDWEST BANCORP INC
Form 10-Q
August 09, 2011

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

FORM 10-Q
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of
1934
For the quarterly period ended June 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
(State or other jurisdiction of
incorporation or organization)

36-3161078
(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 No .

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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 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 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 .

As of August 9, 2011, there were 74,476,360 shares of \$.01 par value common stock outstanding.

FIRST MIDWEST BANCORP, INC.

FORM 10-Q

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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 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 recently enacted 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
SEC:	U.S. Securities and Exchange Commission
TARP:	Troubled Asset Relief Program
Treasury:	U.S. Department of the Treasury
VIE:	variable interest entity

First Midwest Bancorp, Inc. (the “Company”) 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. While liquidity has improved and market volatility has generally lessened, 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 item 1A, "Risk Factors," in its 2010 Annual Report on Form 10-K and consider 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.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Amounts in thousands, except per share data)

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	\$ 110,159	\$ 102,495
Interest-bearing deposits in other banks	601,310	483,281
Trading securities, at fair value	16,230	15,282
Securities available-for-sale, at fair value	1,009,873	1,057,802
Securities held-to-maturity, at amortized cost	76,142	81,320
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	58,187	61,338
Loans, excluding covered loans	5,112,911	5,100,560
Covered loans	314,942	371,729
Allowance for loan losses	(137,331)	(142,572)
Net loans	5,290,522	5,329,717
Other real estate owned ("OREO"), excluding covered OREO	24,407	31,069
Covered OREO	14,583	22,370
Federal Deposit Insurance Corporation ("FDIC") indemnification asset	95,752	95,899
Premises, furniture, and equipment	131,952	140,907
Accrued interest receivable	28,883	29,953
Investment in bank-owned life insurance ("BOLI")	198,149	197,644
Goodwill and other intangible assets	284,120	286,033
Other assets	189,122	203,192
Total assets	\$ 8,129,391	\$8,138,302
Liabilities		
Demand deposits	\$ 1,494,390	\$1,329,505
Savings deposits	937,839	871,166
NOW accounts	1,087,945	1,073,211
Money market deposits	1,211,155	1,245,610
Time deposits	1,764,220	1,991,984
Total deposits	6,495,549	6,511,476
Borrowed funds	272,024	303,974
Subordinated debt	137,748	137,744
Accrued interest payable and other liabilities	82,479	73,063
Total liabilities	6,987,800	7,026,257
Stockholders' Equity		
Preferred stock	191,220	190,882
Common stock	858	858
Additional paid-in capital	424,877	437,550
Retained earnings	802,072	787,678
Accumulated other comprehensive loss, net of tax	(15,339)	(27,739)
Treasury stock, at cost	(262,097)	(277,184)

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Total stockholders' equity	1,141,591	1,112,045
Total liabilities and stockholders' equity	\$ 8,129,391	\$8,138,302

	June 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	74,473	193	74,096
Treasury shares	-	11,314	-	11,691
See accompanying notes to unaudited consolidated financial statements.				

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Interest Income				
Loans	\$ 63,089	\$ 65,439	\$ 126,006	\$ 129,919
Investment securities	9,848	13,699	19,713	27,651
Covered loans	7,655	2,598	15,477	5,560
Federal funds sold and other short-term investments	704	538	1,383	923
Total interest income	81,296	82,274	162,579	164,053
Interest Expense				
Deposits	6,969	9,626	14,640	20,171
Borrowed funds	687	749	1,367	1,759
Subordinated debt	2,279	2,280	4,565	4,566
Total interest expense	9,935	12,655	20,572	26,496
Net interest income	71,361	69,619	142,007	137,557
Provision for loan losses	18,763	21,526	38,255	39,876
Net interest income after provision for loan losses	52,598	48,093	103,752	97,681
Noninterest Income				
Service charges on deposit accounts	9,563	9,052	17,707	17,433
Trust and investment advisory fees	4,118	3,702	8,234	7,295
Other service charges, commissions, and fees	5,362	4,628	10,276	8,800
Card-based fees	5,162	4,497	9,691	8,390
BOLI income	259	349	511	597
Securities gains, net	1,531	1,121	2,071	4,178
Gain on FDIC-assisted transaction	-	4,303	-	4,303
Other	499	(342)	2,221	635
Total noninterest income	26,494	27,310	50,711	51,631
Noninterest Expense				
Salaries and wages	25,493	21,146	51,158	43,282
Retirement and other employee benefits	5,765	5,394	12,623	10,142
OREO expense, net	5,223	11,850	9,154	22,637
FDIC premiums	1,708	2,546	4,433	5,078
Net occupancy and equipment expense	8,012	7,808	17,115	15,976
Technology and related costs	2,697	2,785	5,320	5,268
Professional services	5,640	5,652	10,759	12,192
Other expenses	10,885	10,274	19,984	18,353
Total noninterest expense	65,423	67,455	130,546	132,928
Income before income tax expense	13,669	7,948	23,917	16,384
Income tax expense	2,841	139	2,871	494
Net income	10,828	7,809	21,046	15,890
Preferred dividends and accretion	(2,582)	(2,573)	(5,163)	(5,145)
	(102)	(65)	(242)	(146)

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Net income applicable to non-vested
restricted shares

Net income applicable to common shares	\$ 8,144	\$ 5,171	\$ 15,641	\$ 10,599
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Per Common Share Data

Basic earnings per common share	\$ 0.11	\$ 0.07	\$ 0.21	\$ 0.15
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Diluted earnings per common share	\$ 0.11	\$ 0.07	\$ 0.21	\$ 0.15
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Dividends declared per common share	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02
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Weighted-average common shares outstanding	73,259	73,028	73,205	71,756
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Weighted-average diluted common shares outstanding	73,259	73,028	73,205	71,756
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See accompanying notes to unaudited 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:								
Net income	-	-	-	-	15,890	-	-	15,890
Other comprehensive income (1):								
Unrealized gains on securities	-	-	-	-	-	5,863	-	5,863
Total comprehensive income								21,753
Common dividends declared (\$0.02 per common share)	-	-	-	-	(1,481)	-	-	(1,481)
Preferred dividends declared (\$25.00 per preferred share)	-	-	-	-	(4,825)	-	-	(4,825)
Accretion on preferred stock	-	320	-	-	(320)	-	-	-
Issuance of common stock	18,818	-	188	195,857	-	-	-	196,045
Share-based compensation expense	-	-	-	2,871	-	-	-	2,871
Restricted stock activity	441	-	-	(15,386)	-	-	15,011	(375)
Treasury stock issued to(purchased for) benefit plans	(3)	-	-	(59)	-	-	62	3
Balance at June 30, 2010	74,049	\$ 190,553	\$ 858	\$ 435,605	\$ 819,890	\$ (12,803)	\$ (278,591)	\$ 1,155,512

Balance at January 1, 2011	74,096	\$ 190,882	\$ 858	\$ 437,550	\$ 787,678	\$ (27,739)	\$ (277,184)	\$ 1,112,045
Comprehensive income:								
Net income	-	-	-	-	21,046	-	-	21,046
Other comprehensive income (1):								
Unrealized gains on securities	-	-	-	-	-	12,400	-	12,400
Total comprehensive income								33,446
Common dividends declared (\$0.02 per common share)	-	-	-	-	(1,489)	-	-	(1,489)
Preferred dividends declared (\$25.00 per preferred share)	-	-	-	-	(4,825)	-	-	(4,825)
Accretion on preferred stock	-	338	-	-	(338)	-	-	-
Share-based compensation expense	-	-	-	3,354	-	-	-	3,354
Restricted stock activity	381	-	-	(15,977)	-	-	15,045	(932)
Treasury stock purchased for benefit plans	(4)	-	-	(50)	-	-	42	(8)
Balance at June 30, 2011	74,473	\$ 191,220	\$ 858	\$ 424,877	\$ 802,072	\$ (15,339)	\$ (262,097)	\$ 1,141,591

(1)Net of taxes and reclassification adjustments.

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
	2011	2010
Net cash provided by operating activities	\$ 100,402	\$ 101,048
Investing Activities		
Proceeds from maturities, repayments, and calls of securities available-for-sale	135,320	113,918
Proceeds from sales of securities available-for-sale	97,330	147,601
Purchases of securities available-for-sale	(167,174)	(64,352)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	35,497	33,530
Purchases of securities held-to-maturity	(30,319)	(32,185)
Redemption (purchase) of Federal Reserve Bank stock	3,151	(3,000)
Net increase in loans	(17,785)	(76,222)
Proceeds from claims on BOLI	6	160
Proceeds from sales of OREO	21,435	30,800
Proceeds from sales of premises, furniture, and equipment	5,526	7
Purchases of premises, furniture, and equipment	(2,483)	(7,459)
Net cash proceeds received in an FDIC-assisted transaction	-	26,609
Net cash provided by investing activities	80,504	169,407
Financing Activities		
Net (decrease) increase in deposit accounts	(15,927)	153,987
Net decrease in borrowed funds	(31,950)	(367,474)
Proceeds from the issuance of common stock	-	196,045
Cash dividends paid	(6,310)	(6,114)
Restricted stock activity	(1,100)	(1,004)
Excess tax benefit (expense) related to share-based compensation	74	(194)
Net cash used in financing activities	(55,213)	(24,754)
Net increase in cash and cash equivalents	125,693	245,701
Cash and cash equivalents at beginning of period	585,776	127,379
Cash and cash equivalents at end of period	\$ 711,469	\$ 373,080
Supplemental Disclosures:		
Non-cash transfers of loans to OREO	\$ 13,477	\$ 58,019
Non-cash transfer of loans held-for-investment to loans held-for-sale	\$ 5,395	\$ -
Non-cash transfer of OREO to premises, furniture, and equipment	\$ 841	\$ 9,455
Dividends declared but unpaid	\$ 746	\$ 741

See accompanying notes to unaudited consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited 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 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 six-month periods ended June 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 approximately \$297.0 million in loans, \$23.7 million in OREO, and \$121.5 million in cash and securities and assumed \$215.2 million in core deposits and \$246.6 million in time deposits of a former bank in an FDIC-assisted transaction. The transaction resulted in the recognition of goodwill of \$7.9 million. 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.

Subsequent to the acquisition date, 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, which required an adjustment to those assets and liabilities and to goodwill. In accordance with accounting guidance applicable to business combinations, such adjustments were recognized as if they had happened as of the acquisition date. 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. As of June 30, 2011, the Company finalized its purchase price allocation.

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 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 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: (a) 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 (b) 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 June 30, 2011, and interest income will not be recognized until the timing and amount of the future cash flows can be reasonably estimated.

Restructured Loans - In cases where a borrower experiences financial difficulties and the Company makes certain concessions or modifications to contractual terms, the loan is classified as a restructured loan. Restructured loans are loans for which the original contractual terms have been modified, including forgiveness of principal or interest, due to deterioration in the borrower’s financial condition. Loans granted concessions or modifications are classified as restructured loans unless the modification is short-term, or results in only an insignificant delay or shortfall in the payments to be received. The Company’s restructured loans are determined on a case-by-case basis in connection with ongoing loan collection processes. The allowance for loan losses on restructured loans 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.

The Company does not accrue interest on any restructured loan unless and until 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 restructured loan 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 restructured loan 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 restructured loans 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 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 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 based on historical credit loss experience is determined using a loss migration analysis that examines actual loss experience over 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 based upon historical loss experience 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 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 taking;
 - 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 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.

2. RECENT ACCOUNTING PRONOUNCEMENTS

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 its 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. For public companies, any period-end disclosure requirements were effective for periods ending on or after December 15, 2010. 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." Any disclosures about activity that occurs during a reporting period, excluding disclosures related to troubled debt restructurings ("TDRs"), were effective for the Company beginning January 1, 2011 and included in Note 6, "Past Due Loans, Allowance for Credit Losses, and Impaired Loans." Disclosures related to TDRs will be effective for the Company beginning with third quarter 2011. As this guidance affects only disclosures, the adoption of this guidance on December 31, 2010 for period-end disclosures, and on January 1, 2011 for intra-period activity 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 guidance is effective for the Company beginning in third quarter 2011, and prior periods presented will be restated to apply this guidance to restructurings occurring on or after January 1, 2011. Since the new guidance applies primarily to disclosures, it is not expected to impact the Company's financial position, results of operations, or liquidity.

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 other comprehensive income ("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). The Company's disclosure of OCI for the quarters ended June 30, 2011 and June 30, 2010 is presented in

Note 8, “Comprehensive Income.” Under the new guidance, the information set forth in Note 8 would be shown in the new statement of comprehensive income. This guidance is effective for fiscal years beginning after December 15, 2011. Since the new guidance impacts disclosures only, it will not have an impact on the Company’s financial position, results of operations, 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 other comprehensive loss. Securities classified as held-to-maturity are securities management has the positive intent and ability to hold to maturity and are stated at cost. Trading securities are reported at fair value. Trading gains, net, represents changes in the fair value of the trading securities portfolio and are included as a component of noninterest income in the Consolidated Statements of Income.

Securities Portfolio (Dollar amounts in thousands)

	June 30, 2011			December 31, 2010				
	Amortized Cost	Gross Gains	Unrealized Losses	Fair Value	Amortized Cost	Gross Gains	Unrealized Losses	Fair Value
Securities Available-for-Sale								
U.S. agency securities	\$ 8,122	\$ 23	\$ (32)	\$ 8,113	\$ 18,000	\$ 7	\$ (121)	\$ 17,886
Collateralized residential mortgage obligations (“CMOs”)	373,600	3,824	(722)	376,702	377,692	4,261	(2,364)	379,589
Other residential mortgage-backed securities	91,539	6,290	(24)	97,805	100,780	5,732	(61)	106,451
Municipal securities	471,617	10,487	(2,185)	479,919	512,063	4,728	(12,800)	503,991
Collateralized debt obligations (“CDOs”)	49,695	-	(33,208)	16,487	49,695	-	(34,837)	14,858
Corporate debt securities	25,325	2,597	-	27,922	29,936	2,409	-	32,345
Equity securities:								
Hedge fund investment	1,231	651	-	1,882	1,245	438	-	1,683
Other equity securities	927	117	(1)	1,043	889	110	-	999
Total equity securities	2,158	768	(1)	2,925	2,134	548	-	2,682
Total	\$ 1,022,056	\$ 23,989	\$ (36,172)	\$ 1,009,873	\$ 1,090,300	\$ 17,685	\$ (50,183)	\$ 1,057,802
Securities Held-to-Maturity								
Municipal securities	\$ 76,142	\$ 2,343	\$ -	\$ 78,485	\$ 81,320	\$ 1,205	\$ -	\$ 82,525
Trading Securities (1)				\$ 16,230				\$ 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)

	June 30, 2011			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	\$ 8,301	\$ 7,967	\$ 7,010	\$ 7,226
One year to five years	201,321	193,222	15,137	15,603
Five years to ten years	115,597	110,947	21,468	22,129
After ten years	229,540	220,305	32,527	33,527
CMOs	373,600	376,702	-	-
Other residential mortgage-backed securities	91,539	97,805	-	-
Equity securities	2,158	2,925	-	-
Total	\$ 1,022,056	\$ 1,009,873	\$ 76,142	\$ 78,485

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 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Proceeds from sales	\$ 53,118	\$ 66,618	\$ 97,330	\$ 147,601
Gains (losses) on sales of securities:				
Gross realized gains	\$ 1,974	\$ 2,367	\$ 2,782	\$ 8,187
Gross realized losses	(443)	(112)	(711)	(112)
Net realized gains on securities sales	1,531	2,255	2,071	8,075
Non-cash impairment charges				
Other-than-temporary securities impairment	-	(1,581)	-	(4,344)
Portion of other-than-temporary impairment recognized in other comprehensive income	-	447	-	447
Net non-cash impairment charges	-	(1,134)	-	(3,897)
Net realized gains	\$ 1,531	\$ 1,121	\$ 2,071	\$ 4,178
Income tax expense on net realized gains	\$ 636	\$ 437	\$ 847	\$ 1,629
Trading gains (losses), net (1)	\$ (2)	\$ (1,022)	\$ 742	\$ (561)

(1) All trading gains (losses) relate to trading securities still held as of June 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 1,200 basis points to LIBOR plus 1,300 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 loss.

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

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Cumulative amount recognized at beginning of period	\$ 35,589	\$ 33,709	\$ 35,589	\$ 30,946
Credit losses included in earnings (1)				
Losses recognized on securities that previously had credit losses	-	1,048	-	3,568
Losses recognized on securities that did not previously have credit losses	-	86	-	329
Cumulative amount recognized at end of period	\$ 35,589	\$ 34,843	\$ 35,589	\$ 34,843

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

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

	Number of Securities	Less Than 12 Months		12 Months or Longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of June 30, 2011							
U.S. agency security	1	\$ 3,045	\$ 32	\$ -	\$ -	\$ 3,045	\$ 32
CMOs	10	50,412	323	9,698	399	60,110	722
Other residential mortgage-backed securities	2	317	18	159	6	476	24
Municipal securities	134	17,005	582	53,943	1,603	70,948	2,185
CDOs	6	-	-	16,487	33,208	16,487	33,208
Equity security	1	-	-	30	1	30	1
Total	154	\$ 70,779	\$ 955	\$ 80,317	\$ 35,217	\$ 151,096	\$ 36,172
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 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 June 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 June 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 June 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 12, "Fair Value."

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

Number	Class	Original Par	Amortized Cost	Fair Value	Lowest Credit Rating Assigned to the Security		Number of Banks/ Insurers	% of Banks/ Insurers Currently Performing	Actual	Expected	Excess Subordination as a % of the Remaining Performing Collateral (2)
					Moody's	Fitch			Deferrals and Defaults as a % of the Original Collateral (1)	Deferrals and Defaults as a % of the Remaining Performing Collateral (1)	
1	C-1	\$ 17,500	\$ 7,140	\$ 3,353	Ca	C	46	73.9%	15.8%	20.7%	0.0%
2	C-1	15,000	7,657	2,477	Ca	C	57	84.2%	12.1%	18.8%	0.0%
3	C-1	15,000	13,480	4,016	Ca	C	63	81.0%	7.8%	15.5%	6.0%
4	B1	15,000	13,922	4,344	Ca	C	64	59.4%	35.0%	23.5%	0.0%
5	C	10,000	1,317	212	C	C	56	60.7%	44.6%	28.1%	0.0%
6	C	6,500	6,179	2,085	Ca	C	77	68.8%	23.1%	12.8%	10.5%
7 (3)	A-3L	6,750	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		\$ 85,750	\$ 49,695	\$ 16,487							

(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 June 30, 2011.

Credit-Related CDO Impairment Losses

(Dollar amounts in thousands)

Number	Quarters Ended June 30,		Six Months Ended June 30,		Life-to-Date
	2011	2010	2011	2010	
1	\$ -	\$ -	\$ -	\$ -	\$ 10,360
2	-	794	-	794	7,343
3	-	-	-	-	1,159
4	-	-	-	684	1,078
5	-	254	-	2,091	8,570
6	-	-	-	242	243
7	-	-	-	-	6,750
	\$ -	\$ 1,048	\$ -	\$ 3,811	\$ 35,503

For the equity security with an unrealized loss, the Company has evaluated the near-term prospects of the investment in relation to the severity and duration of the impairment and, based on that evaluation, believes it has the ability and intent to hold this investment until a recovery of fair value.

For additional details of the securities available-for-sale portfolio and the related impact of unrealized gains (losses) thereon, see Note 8, "Comprehensive Income."

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 \$768.7 million at June 30, 2011 and \$808.3 million at December 31, 2010. No securities held-to-maturity were pledged as of June 30, 2011 or December 31, 2010.

4. LOANS

Loan Portfolio
(Dollar amounts in thousands)

	June 30, 2011	December 31, 2010
Commercial and industrial	\$ 1,518,772	\$ 1,465,903
Agricultural	237,518	227,756
Commercial real estate:		
Office, retail, and industrial	1,229,100	1,203,613
Multi-family	336,138	349,862
Residential construction	129,327	174,690
Commercial construction	146,679	164,472
Other commercial real estate	852,966	856,357
Total commercial real estate	2,694,210	2,748,994
Total corporate loans	4,450,500	4,442,653
Home equity	429,923	445,243
1-4 family mortgages	185,002	160,890
Installment loans	47,486	51,774
Total consumer loans	662,411	657,907
Total loans, excluding covered loans	5,112,911	5,100,560
Covered loans (1)	314,942	371,729
Total loans	\$ 5,427,853	\$ 5,472,289

Deferred loan fees included in total loans	\$	7,965	\$	8,042
Overdrawn demand deposits included in total loans	\$	3,111	\$	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)

	June 30, 2011	December 31, 2010
Home equity lines (1)	\$ 47,488	\$ 52,980
Covered impaired loans	226,286	281,893
Other covered loans (2)	41,168	36,856
Total covered loans	314,942	371,729
FDIC indemnification asset	95,752	95,899
Covered OREO	14,583	22,370
Total covered assets	\$ 425,277	489,998
Covered non-accrual loans	\$ 3,588	\$ -
Covered loans past due 90 days or more and still accruing interest	\$ 68,324	\$ 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 June 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 almost all 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 troubled debt restructurings 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 assets 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 85,386	\$ 54,591	\$ 95,899	\$ 67,945
Additions	-	8,338	-	8,338
(Amortization) accretion	(2,255)	812	(4,497)	2,249
Expected reimbursements from the FDIC for changes in				
expected credit losses (1)	19,321	12,958	21,834	12,718
Payments received from the FDIC	(6,700)	(708)	(17,484)	(15,259)
Balance at end of period	\$ 95,752	\$ 75,991	\$ 95,752	\$ 75,991

(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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 51,010	\$ 7,795	\$ 63,616	\$ 9,298
Additions	-	2,591	-	2,591
Accretion	(12,104)	(4,142)	(20,528)	(5,645)
Reclassifications from non-accretable difference, net (1)	16,700	18,230	12,518	18,230
Balance at end of period	\$ 55,606	\$ 24,474	\$ 55,606	\$ 24,474

(1)Amount represents an increase in the estimated cash flows to be collected on those loans showing improvement in the underlying portfolio.

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

The following table presents an aging analysis of the Company's past due loans as of June 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.

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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
June 30, 2011							
Commercial and industrial	\$ 1,478,587	\$ 11,349	\$ 28,836	\$ 40,185	\$ 1,518,772	\$ 44,393	\$ 2,095
Agricultural	236,492	17	1,009	1,026	237,518	1,009	-
Commercial real estate:							
Office, retail, and industrial	1,207,733	5,135	16,232	21,367	1,229,100	16,567	303
Multi-family	313,949	16,149	6,040	22,189	336,138	23,385	557
Residential construction	104,237	5,297	19,793	25,090	129,327	23,576	-
Commercial construction	125,230	-	21,449	21,449	146,679	21,449	-
Other commercial real estate	815,924	3,993	33,049	37,042	852,966	36,984	464
Total commercial real estate	2,567,073	30,574	96,563	127,137	2,694,210	121,961	1,324
Total corporate loans	4,282,152	41,940	126,408	168,348	4,450,500	167,363	3,419
Home equity	415,463	6,750	7,710	14,460	429,923	5,519	2,392
1-4 family mortgages	177,785	2,278	4,939	7,217	185,002	4,577	656
Installment loans	46,880	535	71	606	47,486	36	35
Total consumer loans	640,128	9,563	12,720	22,283	662,411	10,132	3,083
Total loans, excluding covered loans	4,922,280	51,503	139,128	190,631	5,112,911	177,495	6,502
Covered loans	217,069	26,180	71,693	97,873	314,942	3,588	68,324
Total loans	\$ 5,139,349	\$ 77,683	\$ 210,821	\$ 288,504	\$ 5,427,853	\$ 181,083	\$ 74,826
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:							
	1,183,952	4,009	15,652	19,661	1,203,613	19,573	-

Office, retail, and industrial								
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	

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 145,003	\$ 144,824	\$ 145,072	\$ 144,808
Loans charged-off	(27,748)	(24,732)	(49,317)	(44,729)
Recoveries of loans previously charged-off	3,813	3,859	5,821	5,522
Net loans charged-off	(23,935)	(20,873)	(43,496)	(39,207)
Provision for loan losses	18,763	21,526	38,255	39,876
Balance at end of period	\$ 139,831	\$ 145,477	\$ 139,831	\$ 145,477
Allowance for loan losses	\$ 137,331	\$ 145,027	\$ 137,331	\$ 145,027
Reserve for unfunded commitments	2,500	450	2,500	450
Total allowance for credit losses	\$ 139,831	\$ 145,477	\$ 139,831	\$ 145,477

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		Covered Loans	Total Allowance
Six Months ended June 30, 2011												
Balance at beginning of period	\$ 49,545	\$ 20,758	\$ 3,996	\$ 27,933	\$ 29,869	\$ 12,971	\$ -	\$ 145,072				
Loans charged-off	(11,877)	(1,846)	(7,201)	(9,083)	(8,331)	(5,779)	(5,200)	(49,317)				
Recoveries of loans previously charged-off	2,356	54	-	2,766	472	173	-	5,821				
Net loans charged-off	(9,521)	(1,792)	(7,201)	(6,317)	(7,859)	(5,606)	(5,200)	(43,496)				
Provision for loan losses	8,510	(2,104)	12,080	2,711	5,425	6,433	5,200	38,255				
Balance at end of period	\$ 48,534	\$ 16,862	\$ 8,875	\$ 24,327	\$ 27,435	\$ 13,798	\$ -	\$ 139,831				
Six Months ended June 30, 2010												
Balance at beginning of period	\$ 54,452	\$ 20,164	\$ 4,555	\$ 33,078	\$ 21,084	\$ 11,475	\$ -	\$ 144,808				
Loans charged-off	(11,919)	(4,229)	(1,359)	(14,605)	(6,483)	(5,483)	(651)	(44,729)				

Recoveries of loans previously charged-off	4,090	232	362	159	142	537	-	5,522
Net loans charged-off	(7,829)	(3,997)	(997)	(14,446)	(6,341)	(4,946)	(651)	(39,207)
Provision for loan losses	11,526	7,838	2,106	3,883	7,634	6,238	651	39,876
Balance at end of period	\$ 58,149	\$ 24,005	\$ 5,664	\$ 22,515	\$ 22,377	\$ 12,767	\$ -	\$ 145,477

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 restructured loans. 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)

	June 30, 2011	December 31, 2010
Impaired loans individually evaluated for impairment:		
Impaired loans with a related allowance for credit losses (1)	\$ 23,362	\$ 13,790
Impaired loans with no specific related allowance (2)	129,225	173,534
Total impaired loans individually evaluated for impairment	152,587	187,324
Corporate non-accrual loans not individually evaluated for impairment		
(3)	14,776	12,449
Total corporate non-accrual loans	167,363	199,773
Restructured loans, still accruing interest	14,529	22,371
Total impaired loans	\$ 181,892	\$ 222,144
Valuation allowance related to impaired loans	\$ 9,504	\$ 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 credit losses. Since 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, the covered loans 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
June 30, 2011						
Commercial, industrial, and agricultural	\$ 36,529	\$ 1,719,761	\$ 1,756,290	\$ 4,265	\$ 44,269	\$ 48,534
Commercial real estate:						
Office, retail, and industrial	15,316	1,213,784	1,229,100	-	16,862	16,862
Multi-family	22,572	313,566	336,138	-	8,875	8,875
Residential construction	22,510	106,817	129,327	251	24,076	24,327
Other commercial real estate	55,660	943,985	999,645	4,988	22,447	27,435
Total commercial real estate	116,058	2,578,152	2,694,210	5,239	72,260	77,499
Total corporate loans	152,587	4,297,913	4,450,500	9,504	116,529	126,033
Consumer	-	662,411	662,411	-	13,798	13,798
Total	\$ 152,587	\$ 4,960,324	\$ 5,112,911	\$ 9,504	\$ 130,327	\$ 139,831
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

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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

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

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

	June 30, 2011				December 31, 2010			
	Recorded Investment In		Unpaid Principal Balance	Allowance for Credit Losses Allocated	Recorded Investment In		Unpaid Principal Balance	Allowance for Credit Losses Allocated
Loans with No Specific Related Allowance	Loans with a Related Allowance for Credit Losses	Loans with No Specific Related Allowance			Loans with a Related Allowance for Credit Losses			
Commercial and industrial	\$ 25,326	\$ 10,807	\$ 44,016	\$ 4,265	\$ 40,715	\$ 2,650	\$ 53,353	\$ 2,650
Agricultural	396	-	469	-	2,447	-	2,982	-
Commercial real estate:								
Office, retail, and industrial	15,316	-	23,505	-	18,076	-	26,193	-
Multi-family Residential construction	22,572	-	31,922	-	4,565	1,131	7,322	497
Commercial construction	19,358	3,152	63,081	251	51,269	-	129,698	-
Other commercial real estate	20,889	399	28,818	178	28,685	-	38,404	-
Total commercial real estate	25,368	9,004	55,627	4,810	27,777	10,009	60,465	3,196
Total impaired loans individually evaluated for impairment	\$ 129,225	\$ 23,362	\$ 247,438	\$ 9,504	\$ 173,534	\$ 13,790	\$ 318,417	\$ 6,343

	Six Months Ended June 30, 2011		Six Months Ended June 30, 2010	
	Average Recorded Investment Balance	Interest Income Recognized (1)	Average Recorded Investment Balance	Interest Income Recognized (1)
Commercial and industrial	\$ 51,863	\$ 10	\$ 31,934	\$ 83
Agricultural	1,796	-	1,862	-