

FIRST MIDWEST BANCORP INC  
Form 10-Q  
May 10, 2012

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 March 31, 2012

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

36-3161078  
(IRS Employer Identification No.)

\_\_\_\_\_  
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, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act). Large accelerated filer

Accelerated filer  Non-accelerated filer  Smaller reporting company

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 May 10, 2012, there were 74,900,893 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 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 (the Company's wholly owned and principal operating subsidiary)  |
| 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.   |
| CSV             | cash surrender value  |
| 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   |
| LIBOR           | London Interbank Offered Rate   |
| MBSs            | Mortgage-backed securities  |
| 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   |
| SEC             | U.S. Securities and Exchange Commission   |
| TDR             | Troubled Debt Restructurings  |
| Treasury        | U.S. Department of the Treasury   |
| TRUPS           | trust preferred junior subordinated debentures  |
| VIE             | variable interest entity  |

## INTRODUCTION

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 northwest Indiana, central and western Illinois, and eastern Iowa. Our principal subsidiary is First Midwest Bank (the “Bank”), which provides a broad range of commercial and retail banking and wealth management 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](http://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, and
  - Code of Ethics for Senior Financial Officers.

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, attention: 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](mailto: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, 2011 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.

## 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)

|  | March 31,<br>2012<br>(Unaudited) | December<br>31,<br>2011 |
|--|----------------------------------|-------------------------|
| <b>Assets</b>  |                                  |                         |
| Cash and due from banks  | \$ 105,722                       | \$ 123,354              |
| Interest-bearing deposits in other banks                             | 380,651                          | 518,176                 |
| Trading securities, at fair value                                    | 16,031                           | 14,469                  |
| Securities available-for-sale, at fair value                         | 1,183,975                        | 1,013,006               |
| Securities held-to-maturity, at amortized cost                       | 56,319                           | 60,458                  |
| Federal Home Loan Bank and Federal Reserve Bank stock, at cost       | 46,750                           | 58,187                  |
| Loans, excluding covered loans                                       | 5,137,328                        | 5,088,113               |
| Covered loans  | 251,376                          | 260,502                 |
| Allowance for loan losses  | (116,264)                        | (119,462)               |
| Net loans  | 5,272,440                        | 5,229,153               |
| Other real estate owned ("OREO"), excluding covered OREO             | 35,276                           | 33,975                  |
| Covered OREO   | 16,990                           | 23,455                  |
| Federal Deposit Insurance Corporation ("FDIC") indemnification asset | 58,488                           | 65,609                  |
| Premises, furniture, and equipment                                   | 132,865                          | 134,977                 |
| Accrued interest receivable  | 29,423                           | 29,826                  |
| Investment in bank-owned life insurance ("BOLI")                     | 206,304                          | 206,235                 |
| Goodwill and other intangible assets                                 | 282,815                          | 283,650                 |
| Other assets   | 163,953                          | 179,064                 |
| Total assets   | \$ 7,988,002                     | \$7,973,594             |
| <b>Liabilities</b>   |                                  |                         |
| Noninterest-bearing deposits   | \$ 1,637,593                     | \$ 1,593,773            |
| Interest-bearing deposits  | 4,848,770                        | 4,885,402               |
| Total deposits   | 6,486,363                        | 6,479,175               |
| Borrowed funds   | 202,155                          | 205,371                 |
| Senior and subordinated debt   | 231,106                          | 252,153                 |
| Payable for securities purchased                                     | 16,241                           | -                       |
| Accrued interest payable and other liabilities                       | 79,436                           | 74,308                  |
| Total liabilities  | 7,015,301                        | 7,011,007               |
| <b>Stockholders' Equity</b>  |                                  |                         |
| Preferred stock  | -                                | -                       |
| Common stock   | 858                              | 858                     |
| Additional paid-in capital   | 413,742                          | 428,001                 |
| Retained earnings  | 817,630                          | 810,487                 |
| Accumulated other comprehensive loss, net of tax                     | (10,919)                         | (13,276)                |
| Treasury stock, at cost  | (248,610)                        | (263,483)               |
| Total stockholders' equity   | 972,701                          | 962,587                 |
| Total liabilities and stockholders' equity                           | \$ 7,988,002                     | \$7,973,594             |



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|  | March 31, 2012      |                  | December 31, 2011   |                  |
|--|---------------------|------------------|---------------------|------------------|
|  | Preferred<br>Shares | Common<br>Shares | Preferred<br>Shares | Common<br>Shares |
| Par Value  | None                | \$ 0.01          | None                | \$ 0.01          |
| Shares authorized  | 1,000               | 100,000          | 1,000               | 100,000          |
| Shares issued  | -                   | 85,787           | -                   | 85,787           |
| Shares outstanding   | -                   | 74,898           | -                   | 74,435           |
| Treasury shares  | -                   | 10,889           | -                   | 11,352           |
| 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<br>March 31, |           |
|--|-----------------------------|-----------|
|  | 2012                        | 2011      |
| Interest Income  |                             |           |
| Loans  | \$ 61,491                   | \$ 62,917 |
| Investment securities  | 8,934                       | 9,865     |
| Covered loans  | 4,202                       | 7,822     |
| Federal funds sold and other short-term investments                          | 641                         | 679       |
| Total interest income  | 75,268                      | 81,283    |
| Interest Expense   |                             |           |
| Deposits   | 5,513                       | 7,671     |
| Borrowed funds   | 515                         | 680       |
| Senior and subordinated debt   | 4,058                       | 2,286     |
| Total interest expense   | 10,086                      | 10,637    |
| Net interest income  | 65,182                      | 70,646    |
| Provision for loan losses  | 18,210                      | 19,492    |
| Net interest income after provision for loan losses                          | 46,972                      | 51,154    |
| Noninterest Income   |                             |           |
| Service charges on deposit accounts  | 8,660                       | 8,144     |
| Wealth management fees   | 5,392                       | 5,053     |
| Other service charges, commissions, and fees                                 | 3,520                       | 3,977     |
| Card-based fees  | 5,020                       | 4,529     |
| Total fee-based revenues   | 22,592                      | 21,703    |
| Net securities (losses) gains (reclassified from other comprehensive income) | (943)                       | 540       |
| Net trading gains  | 1,401                       | 744       |
| Other  | 1,639                       | 1,230     |
| Total noninterest income   | 24,689                      | 24,217    |
| Noninterest Expense  |                             |           |
| Salaries and wages   | 27,257                      | 25,665    |
| Retirement and other employee benefits                                       | 6,793                       | 7,153     |
| Net OREO expense   | 1,864                       | 3,931     |
| Net occupancy and equipment expense  | 8,331                       | 9,103     |
| Technology and related costs   | 2,858                       | 2,623     |
| Professional services  | 5,629                       | 5,119     |
| FDIC premiums  | 1,719                       | 2,725     |
| Other expenses   | 8,162                       | 9,099     |
| Total noninterest expense  | 62,613                      | 65,418    |
| Income before income tax expense (benefit)                                   | 9,048                       | 9,953     |
| Income tax expense (benefit)   | 1,156                       | (91)      |
| Net income   | 7,892                       | 10,044    |
| Preferred dividends and accretion on preferred stock                         | -                           | (2,581)   |
| Net income applicable to non-vested restricted shares                        | (139)                       | (137)     |
| Net income applicable to common shares                                       | \$ 7,753                    | \$ 7,326  |

Per Common Share Data

|  |    |        |    |        |
|--|----|--------|----|--------|
| Basic earnings per common share                    | \$ | 0.11   | \$ | 0.10   |
| Diluted earnings per common share                  | \$ | 0.11   | \$ | 0.10   |
| Dividends declared per common share                | \$ | 0.01   | \$ | 0.01   |
| Weighted-average common shares outstanding         |    | 73,505 |    | 73,151 |
| Weighted-average diluted common shares outstanding |    | 73,505 |    | 73,151 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

|  | Quarters Ended<br>March 31, |           |
|--|-----------------------------|-----------|
|  | 2012                        | 2011      |
| Net income   | \$ 7,892                    | \$ 10,044 |
| Available-for-sale securities  |                             |           |
| Unrealized holding gains:  |                             |           |
| Before tax   | 2,899                       | 6,040     |
| Tax effect   | (1,099)                     | (2,355)   |
| Net of tax   | 1,800                       | 3,685     |
| Less: reclassification of net (losses) gains included in net income: |                             |           |
| Before tax   | (943)                       | 540       |
| Tax effect   | 386                         | (221)     |
| Net of tax   | (557)                       | 319       |
| Net unrealized holding gains   | 2,357                       | 3,366     |
| Total other comprehensive income                                     | 2,357                       | 3,366     |
| Total comprehensive income   | \$ 10,249                   | \$ 13,410 |

|                            | Accumulated<br>Unrealized<br>(Loss) Gain<br>on Securities<br>Available-<br>for-Sale | Unrecognized<br>Net Pension<br>Costs | Total<br>Accumulated<br>Other<br>Comprehensive<br>Loss |
|----------------------------|---|--------------------------------------|--|
| Balance at January 1, 2011 | \$ (19,806)   | \$ (7,933)                           | \$ (27,739)  |
| Other comprehensive income | 3,366   | -                                    | 3,366  |
| Balance at March 31, 2011  | \$ (16,440)   | \$ (7,933)                           | \$ (24,373)  |
| Balance at January 1, 2012 | \$ (354)  | \$ (12,922)                          | \$ (13,276)  |
| Other comprehensive income | 2,357   | -                                    | 2,357  |
| Balance at March 31, 2012  | \$ 2,003  | \$ (12,922)                          | \$ (10,919)  |

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<br>Shares<br>Outstanding | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total        |
|--|---------------------------------|--------------------|-----------------|----------------------------------|----------------------|---|-------------------|--------------|
| Balance at January 1, 2011                                 | 74,096                          | \$ 190,882         | \$ 858          | \$ 437,550                       | \$ 787,678           | \$ (27,739)                                   | \$ (277,184)      | \$ 1,112,045 |
| Comprehensive income                                       |                                 |                    |                 |                                  | 10,044               | 3,366   |                   | 13,410       |
| Common dividends declared (\$0.01 per common share)        | -                               | -                  | -               | -                                | (746)                | -   | -                 | (746)        |
| Preferred dividends declared (\$12.50 per preferred share) | -                               | -                  | -               | -                                | (2,413)              | -   | -                 | (2,413)      |
| Accretion on preferred stock                               | -                               | 168                | -               | -                                | (168)                | -   | -                 | -            |
| Share-based compensation expense                           | -                               | -                  | -               | 1,625                            | -                    | -   | -                 | 1,625        |
| Restricted stock activity                                  | 449                             | -                  | -               | (16,760)                         | -                    | -   | 16,552            | (208)        |
| Treasury stock purchased for benefit plans                 | (2)                             | -                  | -               | (10)                             | -                    | -   | (1)               | (11)         |
| Balance at March 31, 2011                                  | 74,543                          | \$ 191,050         | \$ 858          | \$ 422,405                       | \$ 794,395           | \$ (24,373)                                   | \$ (260,633)      | \$ 1,123,702 |
| Balance at January 1, 2012                                 | 74,435                          | \$ -               | \$ 858          | \$ 428,001                       | \$ 810,487           | \$ (13,276)                                   | \$ (263,483)      | \$ 962,587   |
| Comprehensive income                                       | -                               | -                  | -               | -                                | 7,892                | 2,357   | -                 | 10,249       |
| Common dividends declared (\$0.01 per common share)        | -                               | -                  | -               | -                                | (749)                | -   | -                 | (749)        |
| Share-based compensation expense                           | -                               | -                  | -               | 1,533                            | -                    | -   | -                 | 1,533        |
| Restricted stock activity                                  | 464                             | -                  | -               | (15,777)                         | -                    | -   | 14,853            | (924)        |
|  | (1)                             | -                  | -               | (15)                             | -                    | -   | 20                | 5            |

Treasury stock  
 purchased for  
 benefit plans

Balance at March

31, 2012                    74,898 \$                    - \$                    858 \$                    413,742 \$                    817,630 \$                    (10,919) \$                    (248,610) \$                    972,701

See accompanying notes to unaudited condensed consolidated financial statements.

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

|  | Quarters Ended<br>March 31, |            |
|--|-----------------------------|------------|
|  | 2012                        | 2011       |
| Net cash provided by operating activities  | \$ 67,862                   | \$ 52,953  |
| Investing Activities   |                             |            |
| Proceeds from maturities, repayments, and calls of securities available-for-sale | 81,049                      | 75,166     |
| Proceeds from sales of securities available-for-sale                             | 2,662                       | 44,212     |
| Purchases of securities available-for-sale                                       | (254,881)                   | (115,792)  |
| Proceeds from maturities, repayments, and calls of securities held-to-maturity   | 8,050                       | 2,516      |
| Purchases of securities held-to-maturity   | (3,911)                     | (2,414)    |
| Proceeds from the redemption of Federal Home Loan Bank stock                     | 11,437                      | -          |
| Net (increase) decrease in loans   | (66,671)                    | 2,019      |
| Proceeds from claims on BOLI   | 239                         | 7          |
| Proceeds from sales of OREO  | 17,156                      | 8,239      |
| Purchases of premises, furniture, and equipment                                  | (536)                       | (476)      |
| Net cash (used in) provided by investing activities                              | (205,406)                   | 13,477     |
| Financing Activities   |                             |            |
| Net increase (decrease) in deposit accounts                                      | 7,188                       | (91,582)   |
| Net decrease in borrowed funds   | (3,216)                     | (30,632)   |
| Payments for the retirement of subordinated debt                                 | (20,004)                    | -          |
| Cash dividends paid  | (746)                       | (3,155)    |
| Restricted stock activity  | (728)                       | (165)      |
| Excess tax expense related to share-based compensation                           | (107)                       | (212)      |
| Net cash used in financing activities  | (17,613)                    | (125,746)  |
| Net decrease in cash and cash equivalents  | (155,157)                   | (59,316)   |
| Cash and cash equivalents at beginning of period                                 | 641,530                     | 585,776    |
| Cash and cash equivalents at end of period                                       | \$ 486,373                  | \$ 526,460 |
| Supplemental Disclosures:  |                             |            |
| Non-cash transfers of loans to OREO  | \$ 12,295                   | \$ 12,433  |
| Non-cash transfer of loans held-for-investment to loans held-for-sale            | 1,500                       | 3,800      |
| Non-cash transfer of loans held-for-sale to loans held-for-investment            | 1,500                       | -          |
| Dividends declared but unpaid  | 749                         | 746        |

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, were prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission for quarterly reports on Form 10-Q. The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles (“GAAP”) and general practice within the banking industry. The accompanying statements do not include certain information and footnote disclosures required by GAAP for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company’s 2011 Annual Report on Form 10-K (“2011 10-K”).

The accompanying unaudited condensed consolidated interim financial statements were prepared in accordance with GAAP and reflect all adjustments that management deems 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 ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The Company uses the accrual basis of accounting for financial reporting purposes. Certain reclassifications were made to prior year amounts to conform to the current year presentation.

First quarter 2011 results were restated in the Condensed Consolidated Statements of Income to correct a 2011 actuarial pension expense calculation related to the valuation of future early retirement benefits. First quarter 2011 pension expense was increased by \$295,000 and income tax expense was reduced by \$121,000. The net effect was a reduction to income of \$174,000, which had no impact on earnings per common share for first quarter 2011. In addition, there was a corresponding \$174,000 reduction to retained earnings in the Consolidated Statements of Changes in Stockholders’ Equity.

Use of Estimates – The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Although these estimates and assumptions are based on the best available information, actual results could differ from those estimates.

Principles of Consolidation – The accompanying 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. Assets held in a fiduciary or agency capacity are not assets of the Company or its subsidiaries and are not included in the consolidated financial statements.

The Company owns an interest in certain variable interest entities (“VIEs”) as described in Note 22, “Variable Interest Entities,” contained in the Company’s 2011 10-K. A VIE is a partnership, limited liability company, trust, or other legal entity that (i) does not have sufficient equity to finance its activities without additional subordinated financial support from other parties or (ii) has investors that 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, the allowance for credit losses, and comprehensive income 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 2011 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 are included in other assets in the Consolidated Statements of Financial Condition. Interest income on loans is accrued based on principal amounts outstanding. Loan and lease origination fees, commitment fees, and certain direct loan origination costs are deferred, and the net amount is 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. 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

periods, 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 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. After the loan is placed on non-accrual, all debt service 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 unless reasonable estimates of the timing and amount of future cash flows cannot be determined. Loans without reasonable cash flow estimates are classified as non-accrual loans, and interest income will not be recognized until the timing and amount of the future cash flows can be reasonably determined.

Troubled Debt Restructurings (“TDRs”) – A restructuring of debt is considered a TDR when the creditor, for economic or legal reasons related to the borrower’s financial difficulties, grants a concession, such as forgiveness of principal, reduction of the interest rate, or extension of the maturity, that it would not otherwise consider. 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. For a TDR to begin accruing interest, the borrower must demonstrate both some level of past performance and the capacity to perform under the modified terms. Generally, six months of consecutive payment performance by the borrower under the restructured terms is required before a TDR is returned to accrual status. However, the period could vary depending on the individual facts and circumstances of the loan. 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. However, in accordance with industry regulation, these restructured loans continue to be separately reported as restructured until after the calendar year in which the restructuring occurred if the loan was restructured at reasonable market rates and terms.

Impaired Loans – Impaired loans consist of corporate non-accrual loans and TDRs.

With the exception of loans that were restructured and are still accruing interest, a loan is considered impaired when 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 based on current information and events. Loans deemed to be impaired are classified as non-accrual and are exclusive of smaller homogeneous loans, such as home equity, 1-4 family mortgages, and installment loans. 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 comparing the estimated value of the loan to the recorded book value. 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. All impaired loans are included in non-performing assets. Purchased impaired loans are not reported as impaired loans provided that estimates of the timing and amount of future cash flows can be reasonably determined.

90-Days Past Due Loans – 90-days or more past due loans are loans with principal or interest payments three months or more past due, but that still accrue interest. The Company continues to accrue interest if it determines these loans are sufficiently collateralized and in the process of collection within a reasonable time period.

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 since it requires significant estimates and management judgment, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on a migration analysis that uses historical loss experience, consideration of current economic trends, and other 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 depends on 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 and other loans that management believes are subject to a higher risk of loss, regardless of internal credit rating. 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 amount if it is a confirmed loss.

For corporate loans, the component of the allowance for loan losses based on a loss migration analysis examines actual loss experience for a rolling 8-quarter period and the related internal risk rating and category of loans charged-off. The loss migration analysis is performed quarterly, and the loss factors are updated based on actual experience. The loss component derived from this migration analysis is then adjusted for management's estimate of 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, trends in the volume and terms of loans, and trends in delinquent and non-accrual loans that could indicate historical trends do not reflect current conditions;

- Changes in credit policies and procedures, such as underwriting standards and collection, charge-off, and recovery practices;
  - 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, such as market, loan type, or risk rating;
  - Changes in the value of the underlying collateral for collateral-dependent loans;
- Changes in the national and local economy that affect the collectability of various segments of the portfolio; 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 loan portfolio.

The Company also maintains a reserve for unfunded commitments, including letters of credit, to provide for the risk of loss inherent in these arrangements. The reserve for unfunded 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. The 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 and assessing the factors impacting loan repayment and estimating the timing and amount of losses. 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 of loan risk classifications by regulatory authorities. 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 unrecognized net pension costs related to the Company's pension plan.

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

**Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (“IFRS”):** In April 2011, the Financial Accounting Standards Board (“FASB”) issued guidance that clarifies the wording used to describe many of the requirements in GAAP for measuring fair value to be consistent with IFRS. In addition, the guidance expands certain disclosure requirements relating to fair value measurements. Specifically, the new guidance requires (i) quantitative information on significant unobservable inputs, (ii) a description of a Company's valuation processes, (iii) a narrative description of the sensitivity of recurring Level 3 measurements to unobservable inputs, and (iv) the fair value hierarchy level of assets and liabilities that are not carried at fair value but are required to be disclosed at fair value in the footnotes. This guidance is applied prospectively for interim and annual periods beginning after December 15, 2011. The adoption of this guidance on January 1, 2012 did not impact the Company's financial condition, results of operations, or liquidity.

**Reconsideration of Effective Control for Repurchase Agreements:** In April 2011, the FASB issued guidance that amends the accounting for repurchase agreements and other similar agreements that both entitle and obligate a transferor to redeem financial assets before maturity. The guidance modifies the criteria for determining when these transactions would be recorded as financing agreements as opposed to purchase or sale agreements with a commitment to resell. This guidance is applied prospectively for interim and annual periods beginning after December 15, 2011. The adoption of this guidance on January 1, 2012 did not 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 two-step impairment test is necessary. If, after assessing those factors, 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. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this guidance on January 1, 2012 did not 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. Net trading gains represent changes in the fair value of the trading securities portfolio and are included as a separate component of other noninterest income in the Condensed Consolidated Statements of Income.





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|                         | Amortized    |              | Amortized |            |
|-------------------------|--------------|--------------|-----------|------------|
|                         | Cost         | Fair Value   | Cost      | Fair Value |
| One year or less        | \$ 14,286    | \$ 14,124    | \$ 10,495 | \$ 11,063  |
| One year to five years  | 345,276      | 341,364      | 18,603    | 19,609     |
| Five years to ten years | 102,598      | 101,436      | 10,366    | 10,927     |
| After ten years         | 81,431       | 80,508       | 16,855    | 17,765     |
| CMOs                    | 504,661      | 507,546      | -         | -          |
| Other residential MBSs  | 130,263      | 136,001      | -         | -          |
| Equity securities       | 2,223        | 2,996        | -         | -          |
| Total                   | \$ 1,180,738 | \$ 1,183,975 | \$ 56,319 | \$ 59,364  |

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 \$491.4 million at March 31, 2012 and \$592.7 million at December 31, 2011. No securities held-to-maturity were pledged as of March 31, 2012 or December 31, 2011.

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

Securities Gains (Losses)  
(Dollar amounts in thousands)

|  | Quarters Ended<br>March 31, |           |
|--|-----------------------------|-----------|
|  | 2012                        | 2011      |
| Proceeds from sales  | \$ 2,662                    | \$ 44,212 |
| Gains (losses) on sales of securities:   |                             |           |
| Gross realized gains   | \$ 47                       | \$ 808    |
| Gross realized losses  | (253)                       | (268)     |
| Net realized (losses) gains on securities sales  | (206)                       | 540       |
| Non-cash impairment charges:   |                             |           |
| Other-than-temporary securities impairment (“OTTI”)                                    | (737)                       | -         |
| Portion of other-than-temporary impairment<br>recognized in other comprehensive income | -                           | -         |
| Net non-cash impairment charges  | (737)                       | -         |
| Net realized (losses) gains  | \$ (943)                    | \$ 540    |
| Income tax (benefit) expense on net realized (losses) gains                            | \$ (386)                    | \$ 221    |
| Net trading gains (1)  | \$ 1,401                    | \$ 744    |

(1) All net trading gains relate to trading securities still held as of March 31, 2012 and March 31, 2011.

The non-cash impairment charges in the table above primarily relate to 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.

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

| Number | Quarters Ended<br>March 31, |      | Life-to-Date |
|--------|-----------------------------|------|--------------|
|        | 2012                        | 2011 |              |
| 1      | \$ -                        | \$ - | \$ 10,360    |
| 2      | 642                         | -    | 8,510        |
| 3      | 79                          | -    | 1,649        |
| 4      | -                           | -    | 1,078        |
| 5      | -                           | -    | 8,570        |
| 6      | -                           | -    | 243          |
| 7      | -                           | -    | 6,750        |
|        | \$ 721                      | \$ - | \$ 37,160    |



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)

|  | Quarters Ended<br>March 31, |           |
|--|-----------------------------|-----------|
|  | 2012                        | 2011      |
| Cumulative amount recognized at beginning of period                        | \$ 36,525                   | \$ 35,756 |
| Credit losses included in earnings (1):                                    |                             |           |
| Losses recognized on securities that previously had credit losses          | 737                         | -         |
| Losses recognized on securities that did not previously have credit losses | -                           | -         |
| Cumulative amount recognized at end of period                              | \$ 37,262                   | \$ 35,756 |

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

The following table presents the aggregate amount of unrealized losses and the aggregate related fair values of securities with unrealized losses as of March 31, 2012 and December 31, 2011.

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

|  | Number<br>of<br>Securities | Less Than 12 Months |                      | 12 Months or Longer |                      | Total             |                      |
|--|----------------------------|---------------------|----------------------|---------------------|----------------------|-------------------|----------------------|
|  |                            | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses |
| <b>As of March 31, 2012</b>                  |                            |                     |                      |                     |                      |                   |                      |
| U.S. agency security                         | 2                          | \$ -                | \$ -                 | \$ 5,011            | \$ 18                | \$ 5,011          | \$ 18                |
| CMOs   | 26                         | 132,978             | 589                  | 11,338              | 365                  | 144,316           | 954                  |
| Other residential mortgage-backed securities | 4                          | 612                 | 1                    | 263                 | 18                   | 875               | 19                   |
| Municipal securities                         | 17                         | 1,671               | 33                   | 6,748               | 246                  | 8,419             | 279                  |
| CDOs   | 6                          | -                   | -                    | 13,685              | 34,353               | 13,685            | 34,353               |
| <b>Total</b>                                 | <b>55</b>                  | <b>\$ 135,261</b>   | <b>\$ 623</b>        | <b>\$ 37,045</b>    | <b>\$ 35,000</b>     | <b>\$ 172,306</b> | <b>\$ 35,623</b>     |
| <b>As of December 31, 2011</b>               |                            |                     |                      |                     |                      |                   |                      |
| U.S. agency securities                       | 2                          | \$ -                | \$ -                 | \$ 5,035            | \$ 25                | \$ 5,035          | \$ 25                |
| CMOs   | 30                         | 163,819             | 1,818                | 12,628              | 528                  | 176,447           | 2,346                |
| Other residential mortgage-backed securities | 4                          | 182                 | 17                   | 1,072               | 6                    | 1,254             | 23                   |
| Municipal securities                         | 19                         | 934                 | 2                    | 7,857               | 364                  | 8,791             | 366                  |
| CDOs   | 6                          | -                   | -                    | 13,394              | 35,365               | 13,394            | 35,365               |

|                           |    |            |          |           |           |            |           |
|---------------------------|----|------------|----------|-----------|-----------|------------|-----------|
| Corporate debt securities | 1  | 2,157      | 11       | -         | -         | 2,157      | 11        |
| Total                     | 62 | \$ 167,092 | \$ 1,848 | \$ 39,986 | \$ 36,288 | \$ 207,078 | \$ 38,136 |

Approximately 99% of the Company's CMOs and other MBSs 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 March 31, 2012 represents an OTTI. 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 March 31, 2012 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 OTTI related to credit deterioration. 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 related to these securities and the underlying collateral. For these reasons and due to the illiquidity in the secondary market for the CDOs, the Company estimates the fair value of these securities using discounted cash flow analyses with the assistance of a structured credit valuation firm. For additional discussion of the CDO valuation methodology, refer to Note 12, "Fair Value."

#### 4. LOANS

The following table presents the Company's loan portfolio by class.

Loan Portfolio  
(Dollar amounts in thousands)

|   | March 31,<br>2012 | December 31,<br>2011 |
|---|-------------------|----------------------|
| Commercial and industrial                         | \$ 1,496,966      | \$ 1,458,446         |
| Agricultural                                      | 237,686           | 243,776              |
| Commercial real estate:                           |                   |                      |
| Office, retail, and industrial                    | 1,366,899         | 1,299,082            |
| Multi-family                                      | 301,356           | 288,336              |
| Residential construction                          | 99,768            | 105,836              |
| Commercial construction                           | 142,307           | 144,909              |
| Other commercial real estate                      | 829,005           | 888,146              |
| Total commercial real estate                      | 2,739,335         | 2,726,309            |
| Total corporate loans                             | 4,473,987         | 4,428,531            |
| Home equity                                       | 406,367           | 416,194              |
| 1-4 family mortgages                              | 217,729           | 201,099              |
| Installment loans                                 | 39,245            | 42,289               |
| Total consumer loans                              | 663,341           | 659,582              |
| Total loans, excluding covered loans              | 5,137,328         | 5,088,113            |
| Covered loans (1)                                 | 251,376           | 260,502              |
| Total loans                                       | \$ 5,388,704      | \$ 5,348,615         |
| Deferred loan fees included in total loans        | \$ 7,283          | \$ 7,828             |
| Overdrawn demand deposits included in total loans | \$ 2,173          | \$ 2,850             |

(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 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.

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## 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 these acquisitions are covered by loss sharing agreements with the FDIC (the “FDIC 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 2011 10-K.

Covered Assets  
(Dollar amounts in thousands)

|  | March 31,<br>2012 | December 31,<br>2011 |
|--|-------------------|----------------------|
| Home equity lines (1)  | \$ 44,855         | \$ 45,451            |
| Covered impaired loans   | 171,014           | 178,025              |
| Other covered loans (2)  | 35,507            | 37,026               |
| Total covered loans  | 251,376           | 260,502              |
| FDIC indemnification asset   | 58,488            | 65,609               |
| Covered OREO   | 16,990            | 23,455               |
| Total covered assets   | \$ 326,854        | \$ 349,566           |
| Covered non-accrual loans  | \$ 19,264         | \$ 19,879            |
| Covered loans past due 90 days or more and still accruing interest | \$ 33,825         | \$ 43,347            |

(1)These loans are open-end consumer loans that are not categorized as purchased 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. 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. Past due covered loans in the table above are past due based on contractual terms but continue to perform in accordance with the Company’s expectations of cash flows.

In connection with the FDIC 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 FDIC 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 2011 10-K.



Changes in the FDIC Indemnification Asset  
(Dollar amounts in thousands)

|   | Quarters Ended<br>March 31, |           |
|---|-----------------------------|-----------|
|   | 2012                        | 2011      |
| Balance at beginning of period  | \$ 65,609                   | \$ 95,899 |
| Amortization  | (1,979)                     | (2,242)   |
| Expected reimbursements from the FDIC for changes in expected credit losses (1) | 2,034                       | 2,513     |
| Payments received from the FDIC   | (7,176)                     | (10,784)  |
| Balance at end of period  | \$ 58,488                   | \$ 85,386 |

(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<br>March 31, |           |
|--|-----------------------------|-----------|
|  | 2012                        | 2011      |
| Balance at beginning of period                         | \$ 52,147                   | \$ 63,616 |
| Accretion  | (5,386)                     | (8,424)   |
| Net reclassifications to non-accretable difference (1) | (5,716)                     | (4,182)   |
| Balance at end of period                               | \$ 41,045                   | \$ 51,010 |

(1)Amount represents a decrease 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 March 31, 2012 and December 31, 2011. The aging is determined without regard to accrual status. The table also presents non-performing loans, consisting of non-accrual loans (the majority 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) |                           |                                |                   | Total<br>Loans | Non-performing Loans     |   |
|--------------------------------------|---|---------------------------|--------------------------------|-------------------|----------------|--------------------------|---|
|                                      | Current                                   | 30-89<br>Days<br>Past Due | 90 Days or<br>More Past<br>Due | Total<br>Past Due |                | Non-<br>accrual<br>Loans | 90 Days<br>Past<br>Due<br>Loans,<br>Still<br>Accruing<br>Interest |
| March 31, 2012                       |   |                           |                                |                   |                |                          |   |
| Commercial and industrial            | \$ 1,439,402                              | \$ 22,899                 | \$ 34,665                      | \$ 57,564         | \$ 1,496,966   | \$ 55,158                | \$ 3,525  |
| Agricultural                         | 236,818                                   | 159                       | 709                            | 868               | 237,686        | 882                      | 393   |
| Commercial real estate:              |   |                           |                                |                   |                |                          |   |
| Office, retail, and industrial       | 1,329,162                                 | 20,045                    | 17,692                         | 37,737            | 1,366,899      | 34,831                   | 901   |
| Multi-family                         | 291,061                                   | 1,362                     | 8,933                          | 10,295            | 301,356        | 9,615                    | -   |
| Residential construction             | 77,531                                    | 1,768                     | 20,469                         | 22,237            | 99,768         | 21,104                   | -   |
| Commercial construction              | 124,807                                   | 500                       | 17,000                         | 17,500            | 142,307        | 20,297                   | -   |
| Other commercial real estate         | 793,385                                   | 12,842                    | 22,778                         | 35,620            | 829,005        | 43,137                   | 963   |
| Total commercial real estate         | 2,615,946                                 | 36,517                    | 86,872                         | 123,389           | 2,739,335      | 128,984                  | 1,864   |
| Total corporate loans                | 4,292,166                                 | 59,575                    | 122,246                        | 181,821           | 4,473,987      | 185,024                  | 5,782   |
| Home equity                          | 394,424                                   | 2,723                     | 9,220                          | 11,943            | 406,367        | 8,851                    | 1,596   |
| 1-4 family mortgages                 | 211,398                                   | 875                       | 5,456                          | 6,331             | 217,729        | 5,648                    | 264   |
| Installment loans                    | 38,858                                    | 333                       | 54                             | 387               | 39,245         | 22                       | 32  |
| Total consumer loans                 | 644,680                                   | 3,931                     | 14,730                         | 18,661            | 663,341        | 14,521                   | 1,892   |
| Total loans, excluding covered loans | 4,936,846                                 | 63,506                    | 136,976                        | 200,482           | 5,137,328      | 199,545                  | 7,674   |
| Covered loans                        | 191,785                                   | 8,394                     | 51,197                         | 59,591            | 251,376        | 19,264                   | 33,825  |
| Total loans                          | \$ 5,128,631                              | \$ 71,900                 | \$ 188,173                     | \$ 260,073        | \$ 5,388,704   | \$ 218,809               | \$ 41,499   |
| December 31, 2011                    |   |                           |                                |                   |                |                          |   |
| Commercial and industrial            | \$ 1,415,165                              | \$ 13,731                 | \$ 29,550                      | \$ 43,281         | \$ 1,458,446   | \$ 44,152                | \$ 4,991  |
| Agricultural                         | 242,727                                   | 30                        | 1,019                          | 1,049             | 243,776        | 1,019                    | -   |

|                                      |              |           |            |            |              |            |           |  |
|--------------------------------------|--------------|-----------|------------|------------|--------------|------------|-----------|--|
| Commercial real estate:              |              |           |            |            |              |            |           |  |
| Office, retail, and industrial       | 1,276,920    | 2,931     | 19,231     | 22,162     | 1,299,082    | 30,043     | 1,040     |  |
| Multi-family                         | 281,943      | 1,121     | 5,272      | 6,393      | 288,336      | 6,487      | -         |  |
| Residential construction             | 87,606       | 2,164     | 16,066     | 18,230     | 105,836      | 18,076     | -         |  |
| Commercial construction              | 129,310      | 320       | 15,279     | 15,599     | 144,909      | 23,347     | -         |  |
| Other commercial real estate         | 849,066      | 6,372     | 32,708     | 39,080     | 888,146      | 51,447     | 1,707     |  |
| Total commercial real estate         | 2,624,845    | 12,908    | 88,556     | 101,464    | 2,726,309    | 129,400    | 2,747     |  |
| Total corporate loans                | 4,282,737    | 26,669    | 119,125    | 145,794    | 4,428,531    | 174,571    | 7,738     |  |
| Home equity                          | 402,842      | 6,112     | 7,240      | 13,352     | 416,194      | 7,407      | 1,138     |  |
| 1-4 family mortgages                 | 192,646      | 3,712     | 4,741      | 8,453      | 201,099      | 5,322      | -         |  |
| Installment loans                    | 41,288       | 625       | 376        | 1,001      | 42,289       | 25         | 351       |  |
| Total consumer loans                 | 636,776      | 10,449    | 12,357     | 22,806     | 659,582      | 12,754     | 1,489     |  |
| Total loans, excluding covered loans | 4,919,513    | 37,118    | 131,482    | 168,600    | 5,088,113    | 187,325    | 9,227     |  |
| Covered loans                        | 195,289      | 7,853     | 57,360     | 65,213     | 260,502      | 19,879     | 43,347    |  |
| Total loans                          | \$ 5,114,802 | \$ 44,971 | \$ 188,842 | \$ 233,813 | \$ 5,348,615 | \$ 207,204 | \$ 52,574 |  |

## 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<br>March 31, |            |
|--|-----------------------------|------------|
|  | 2012                        | 2011       |
| Balance at beginning of period             | \$ 121,962                  | \$ 145,072 |
| Loans charged-off                          | (22,686)                    | (21,581)   |
| Recoveries of loans previously charged-off | 1,278                       | 2,020      |
| Net loans charged-off                      | (21,408)                    | (19,561)   |
| Provision for loan losses                  | 18,210                      | 19,492     |
| Balance at end of period                   | \$ 118,764                  | \$ 145,003 |
| Allowance for loan losses                  | \$ 116,264                  | \$ 142,503 |
| Reserve for unfunded commitments           | 2,500                       | 2,500      |
| Total allowance for credit losses          | \$ 118,764                  | \$ 145,003 |

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

| Quarter ended                              | Commercial,<br>Industrial,<br>and<br>Agricultural |           | Office,<br>Retail, and<br>Industrial | Multi-<br>Family | Residential<br>Construction | Other<br>Commercial<br>Real Estate | Covered<br>Consumer<br>Loans | Total<br>Allowance |
|--|---|-----------|--------------------------------------|------------------|-----------------------------|------------------------------------|------------------------------|--------------------|
|  |   |           |                                      |                  |                             |                                    |                              |                    |
| March 31, 2012                             |   |           |                                      |                  |                             |                                    |                              |                    |
| Balance at beginning of period             | \$ 46,017   | \$ 16,012 | \$ 5,067                             | \$ 14,563        | \$ 24,471                   | \$ 14,843                          | \$ 989                       | \$ 121,962         |
| Loans charged-off                          | (8,190)   | (2,667)   | (140)                                | (683)            | (8,354)                     | (2,378)                            | (274)                        | (22,686)           |
| Recoveries of loans previously charged-off | 716   | 2         | 131                                  | 220              | 7                           | 202                                | -                            | 1,278              |
| Net loans charged-off                      | (7,474)   | (2,665)   | (9)                                  | (463)            | (8,347)                     | (2,176)                            | (274)                        | (21,408)           |
| Provision for loan losses                  | 6,172   | 4,209     | 24                                   | 163              | 6,325                       | 1,039                              | 278                          | 18,210             |
| Balance at end of period                   | \$ 44,715   | \$ 17,556 | \$ 5,082                             | \$ 14,263        | \$ 22,449                   | \$ 13,706                          | \$ 993                       | \$ 118,764         |
| March 31, 2011                             |   |           |                                      |                  |                             |                                    |                              |                    |
| Balance at beginning of period             | \$ 49,545   | \$ 20,758 | \$ 3,996                             | \$ 27,933        | \$ 29,869                   | \$ 12,971                          | \$ -                         | \$ 145,072         |
| Loans charged-off                          | (4,974)   | (1,199)   | (549)                                | (5,422)          | (5,662)                     | (2,671)                            | (1,104)                      | (21,581)           |

|  |           |           |          |           |           |           |        |            |
|--|-----------|-----------|----------|-----------|-----------|-----------|--------|------------|
| Recoveries of<br>loans previously<br>charged-off | 1,837     | 16        | -        | 4         | 43        | 108       | 12     | 2,020      |
| Net loans<br>charged-off                         | (3,137)   | (1,183)   | ( 549)   | (5,418)   | (5,619)   | (2,563)   | (1092) | (19,561)   |
| Provision for<br>loan losses                     | 4,181     | 57        | 1,205    | 4,873     | 5,795     | 2,289     | 1,092  | 19,492     |
| Balance at end of<br>period                      | \$ 50,589 | \$ 19,632 | \$ 4,652 | \$ 27,388 | \$ 30,045 | \$ 12,697 | \$ -   | \$ 145,003 |

## 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)

|   | March 31,<br>2012 | December 31,<br>2011 |
|---|-------------------|----------------------|
| Impaired loans individually evaluated for impairment:                   |                   |                      |
| Impaired loans with a related allowance for credit losses (1)           | \$ 105,121        | \$ 76,397            |
| Impaired loans with no specific related allowance for credit losses (2) | 65,413            | 83,090               |
| Total impaired loans individually evaluated for impairment              | 170,534           | 159,487              |
| Corporate non-accrual loans not individually evaluated for impairment   |                   |                      |
| (3)   | 14,490            | 15,084               |
| Total corporate non-accrual loans                                       | 185,024           | 174,571              |
| TDRs, still accruing interest   | 2,076             | 17,864               |
| Total impaired loans  | \$ 187,100        | \$ 192,435           |
| Valuation allowance related to impaired loans                           | \$ 23,103         | \$ 26,095            |

(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.

(3) These are loans with balances under a specified threshold.

The table below provides a breakdown 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 except for open-end consumer loans.

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

|  | Loans  |  | Total        | Allowance For Credit Losses                    |  |            |
|--|--|--|--------------|--|--|------------|
|  | Individually<br>Evaluated<br>For<br>Impairment | Collectively<br>Evaluated<br>For<br>Impairment |              | Individually<br>Evaluated<br>For<br>Impairment | Collectively<br>Evaluated<br>For<br>Impairment | Total      |
| March 31, 2012   |  |  |              |  |  |            |
| Commercial, industrial,<br>and<br>agricultural   | \$ 49,075                                      | \$ 1,685,577                                   | \$ 1,734,652 | \$ 14,975                                      | \$ 29,740                                      | \$ 44,715  |
| Commercial real estate:  |  |  |              |  |  |            |
| Office, retail, and<br>industrial  | 32,813   | 1,334,086                                      | 1,366,899    | 1,447  | 16,109   | 17,556     |
| Multi-family   | 8,551  | 292,805  | 301,356      | -  | 5,082  | 5,082      |
| Residential<br>construction  | 20,024   | 79,744   | 99,768       | 3,110  | 11,153   | 14,263     |
| Other commercial<br>real estate  | 60,071   | 911,241  | 971,312      | 3,571  | 18,878   | 22,449     |
| Total commercial<br>real estate  | 121,459  | 2,617,876                                      | 2,739,335    | 8,128  | 51,222   | 59,350     |
| Total corporate<br>loans   | 170,534  | 4,303,453                                      | 4,473,987    | 23,103   | 80,962   | 104,065    |
| Consumer   | -  | 663,341  | 663,341      | -  | 13,706   | 13,706     |
| Total loans,<br>excluding<br>covered loans   | 170,534  | 4,966,794                                      | 5,137,328    | 23,103   | 94,668   | 117,771    |
| Covered loans (1)  | -  | 44,855   | 44,855       | -  | 993  | 993        |
| Total loans included<br>in the<br>calculation of the<br>allowance<br>for credit losses | \$ 170,534                                     | \$ 5,011,649                                   | \$ 5,182,183 | \$ 23,103                                      | \$ 95,661                                      | \$ 118,764 |
| December 31, 2011  |  |  |              |  |  |            |
| Commercial, industrial,<br>and<br>agricultural   | \$ 37,385                                      | \$ 1,664,837                                   | \$ 1,702,222 | \$ 14,827                                      | \$ 31,190                                      | \$ 46,017  |
| Commercial real estate:  |  |  |              |  |  |            |
| Office, retail, and<br>industrial  | 28,216   | 1,270,866                                      | 1,299,082    | 1,507  | 14,505   | 16,012     |
| Multi-family   | 5,589  | 282,747  | 288,336      | 20   | 5,047  | 5,067      |
| Residential<br>construction  | 17,378   | 88,458   | 105,836      | 2,502  | 12,061   | 14,563     |
| Other commercial<br>real estate  | 70,919   | 962,136  | 1,033,055    | 7,239  | 17,232   | 24,471     |
| Total commercial<br>real estate  | 122,102  | 2,604,207                                      | 2,726,309    | 11,268   | 48,845   | 60,113     |
|  | 159,487  | 4,269,044                                      | 4,428,531    | 26,095   | 80,035   | 106,130    |

|  |            |              |              |           |           |            |
|--|------------|--------------|--------------|-----------|-----------|------------|
| Total corporate loans  |            |              |              |           |           |            |
| Consumer   | -          | 659,582      | 659,582      | -         | 14,843    | 14,843     |
| Total loans, excluding covered loans                                       | 159,487    | 4,928,626    | 5,088,113    | 26,095    | 94,878    | 120,973    |
| Covered loans (1)  | -          | 45,451       | 45,451       | -         | 989       | 989        |
| Total loans included in the calculation of the allowance for credit losses | \$ 159,487 | \$ 4,974,077 | \$ 5,133,564 | \$ 26,095 | \$ 95,867 | \$ 121,962 |

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



The following table presents loans individually evaluated for impairment by class of loan as of March 31, 2012 and December 31, 2011.

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

|  | March 31, 2012   |   |                                |  | December 31, 2011  |   |                                |  |
|--|--|---|--------------------------------|--|--|---|--------------------------------|--|
|  | Recorded Investment<br>In<br>Loans<br>with<br>No<br>Specific<br>Related<br>Allowance<br>for Credit<br>Losses | Loans<br>with<br>a Related<br>Allowance<br>for Credit<br>Losses | Unpaid<br>Principal<br>Balance | Allowance<br>for Credit<br>Losses<br>Allocated | Recorded Investment<br>In<br>Loans<br>with<br>No<br>Specific<br>Related<br>Allowance<br>for Credit<br>Losses | Loans<br>with<br>a Related<br>Allowance<br>for Credit<br>Losses | Unpaid<br>Principal<br>Balance | Allowance<br>for Credit<br>Losses<br>Allocated |
| Commercial and industrial                                  | \$ 13,364  | \$ 35,154   | \$ 71,648                      | \$ 14,975                                      | \$ 10,801  | \$ 26,028   | \$ 58,591                      | \$ 14,827                                      |
| Agricultural   | 557  | -   | 557                            | -  | 556  | -   | 556                            | -  |
| Commercial real estate:                                    |  |   |                                |  |  |   |                                |  |
| Office, retail, and industrial                             | 7,635  | 25,178  | 42,873                         | 1,447  | 11,897   | 16,319  | 33,785                         | 1,507  |
| Multi-family Residential construction                      | 8,551  | -   | 14,087                         | -  | 5,072  | 517   | 11,265                         | 20   |
| Commercial construction                                    | 8,666  | 11,358  | 35,110                         | 3,110  | 9,718  | 7,660   | 33,124                         | 2,502  |
| Other commercial real estate                               | 2,107  | 18,179  | 24,844                         | 763  | 19,019   | 3,790   | 28,534                         | 758  |
| Total commercial real estate                               | 24,533   | 15,252  | 65,333                         | 2,808  | 26,027   | 22,083  | 70,868                         | 6,481  |
| Total impaired loans individually evaluated for impairment | \$ 65,413  | \$ 105,121  | \$ 254,452                     | \$ 23,103                                      | \$ 83,090  | \$ 76,397   | \$ 236,723                     | \$ 26,095                                      |

| Quarter Ended<br>March 31, 2012 |                    | Quarter Ended<br>March 31, 2011 |                    |
|---------------------------------|--------------------|---------------------------------|--------------------|
| Average<br>Recorded             | Interest<br>Income | Average<br>Recorded             | Interest<br>Income |

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|  | Investment<br>Balance | Recognized (1) | Investment<br>Balance | Recognized (1) |
|--|-----------------------|----------------|-----------------------|----------------|
| Commercial and industrial  | \$ 45,630             | \$ 9           | \$ 51,024             | \$ 6           |
| Agricultural   | 922                   | -              | 2,515                 | -              |
| Commercial real estate:  |                       |                |                       |                |
| Office, retail, and industrial                                   | 28,683                | -              | 17,910                | 12             |
| Multi-family   | 6,528                 | -              | 6,650                 | 2              |
| Residential construction   | 17,074                | -              | 49,823                | -              |
| Commercial construction  | 22,755                | -              | 25,391                | -              |
| Other commercial real estate                                     | 51,842                | -              | 44,339                | 17             |
| Total commercial real estate                                     | 126,882               | -              | 144,113               | 31             |
| Total impaired loans individually<br>evaluated for<br>impairment | \$ 173,434            | \$ 9           | \$ 197,652            | \$ 37          |

(1)Recorded using the cash basis of accounting.

## TDRs

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. A discussion of our accounting policies for TDRs is contained in Note 1 of "Notes to Consolidated Financial Statements" in Item 1 of this Form 10-Q.

TDRs by Class  
(Dollar amounts in thousands)

|                                | As of March 31, 2012 |                    |           | As of December 31, 2011 |                    |           |
|--------------------------------|----------------------|--------------------|-----------|-------------------------|--------------------|-----------|
|                                | Accruing<br>(1)      | Non-accrual<br>(2) | Total     | Accruing<br>(1)         | Non-accrual<br>(2) | Total     |
| Commercial and industrial      | \$ 518               | \$ 1,240           | \$ 1,758  | \$ 1,451                | \$ 897             | \$ 2,348  |
| Agricultural                   | -                    | -                  | -         | -                       | -                  | -         |
| Commercial real estate:        |                      |                    |           |                         |                    |           |
| Office, retail, and industrial | 220                  | -                  | 220       | 1,742                   | -                  | 1,742     |
| Multi-family                   | -                    | 1,758              | 1,758     | 11,107                  | 1,758              | 12,865    |
| Residential construction       | -                    | -                  | -         | -                       | -                  | -         |
| Commercial construction        | -                    | 14,006             | 14,006    | -                       | 14,006             | 14,006    |
| Other commercial real estate   | -                    | 11,467             | 11,467    | 227                     | 11,417             | 11,644    |
| Total commercial real estate   | 220                  | 27,231             | 27,451    | 13,076                  | 27,181             | 40,257    |
| Total corporate loans          | 738                  | 28,471             | 29,209    | 14,527                  | 28,078             | 42,605    |
| Home equity                    | 359                  | 409                | 768       | 1,093                   | 471                | 1,564     |
| 1-4 family mortgages           | 979                  | 1,080              | 2,059     | 2,089                   | 1,293              | 3,382     |
| Installment loans              | -                    | -                  | -         | 155                     | -                  | 155       |
| Total consumer loans           | 1,338                | 1,489              | 2,827     | 3,337                   | 1,764              | 5,101     |
| Total loans                    | \$ 2,076             | \$ 29,960          | \$ 32,036 | \$ 17,864               | \$ 29,842          | \$ 47,706 |

(1) These loans are still accruing interest.

(2) These loans are included in non-accrual loans in the preceding tables.

The following table presents a summary of loans that were restructured during the quarters ended March 31, 2012 and March 31, 2011.

TDRs Restructured During the Period  
(Dollar amounts in thousands)

| Quarter Ended March 31, 2012 |              |               |       | Quarter Ended March 31, 2011 |              |       |       |
|------------------------------|--------------|---------------|-------|------------------------------|--------------|-------|-------|
| Number                       | Pre-Interest | Post-Interest | Post- | Number                       | Pre-Interest | Post- | Post- |

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|   | of<br>Loans | Modification<br>Recorded<br>Investment | and<br>Escrow<br>Capitalized | Modification<br>Recorded<br>Investment | of<br>Loans | Modification<br>Recorded<br>Investment | and<br>Escrow<br>Capitalized | Modification<br>Recorded<br>Investment |
|---|-------------|--|------------------------------|--|-------------|--|------------------------------|--|
| Commercial and industrial                 | -           | \$ -                                   | \$ -                         | \$ -                                   | 2           | \$ 131                                 | \$ 7                         | \$ 138                                 |
| Home equity                               | -           | -                                      | -                            | -                                      | 5           | 284                                    | 12                           | 296                                    |
| 1-4 family mortgages                      | 3           | 430                                    | 4                            | 434                                    | 5           | 571                                    | 30                           | 601                                    |
| Installment loans                         | -           | -                                      | -                            | -                                      | 1           | 151                                    | 4                            | 155                                    |
| Total TDRs restructured during the period | 3           | \$ 430                                 | \$ 4                         | \$ 434                                 | 13          | \$ 1,137                               | \$ 53                        | \$ 1,190                               |

The specific reserve portion of the allowance for loan losses on TDRs for all segments of loans is determined by estimating the value of the loan. This is determined by discounting the restructured cash flows at the original effective rate of the loan before modification or is based on 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. specific reserve) as a component of the allowance for loan losses or charges off the impaired balance if it determines that it is a confirmed loss. TDRs had related valuation allowances totaling \$916,000 as of March 31, 2012 and \$94,000 as of December 31, 2011.

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 impairment. All loans charged-off, including TDRs charged-off, are factored into this calculation by portfolio segment.

TDRs that have payment defaults and do not perform in accordance with the modified terms are transferred to non-accrual. The following table presents TDRs that had payment defaults during the quarters ended March 31, 2012 and March 31, 2011 where the default occurred within twelve months of the restructured date.

TDRs That Defaulted Within Twelve Months of the Restructured Date  
(Dollar amounts in thousands)

|                      | Quarters Ended        |                        |                       |                        |
|----------------------|-----------------------|------------------------|-----------------------|------------------------|
|                      | March 31, 2012        |                        | March 31, 2011        |                        |
|                      | Number<br>of<br>Loans | Recorded<br>Investment | Number<br>of<br>Loans | Recorded<br>Investment |
| Home equity          | -                     | \$ -                   | 1                     | \$ 83                  |
| 1-4 family mortgages | 1                     | 62                     | -                     | -                      |
| <b>Total</b>         | <b>1</b>              | <b>\$ 62</b>           | <b>1</b>              | <b>\$ 83</b>           |

There were no commitments to lend additional funds to borrowers with TDRs as of March 31, 2012 or December 31, 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. On a quarterly basis, consumer loans are assessed for credit quality based on the delinquency status of the loan.

## Credit Quality Indicators by Class, Excluding Covered Loans

(Dollar amounts in thousands)

|                                | Pass         | Special<br>Mention (1) | Substandard (2) | Non-accrual (3) | Total        |
|--------------------------------|--------------|------------------------|-----------------|-----------------|--------------|
| March 31, 2012                 |              |                        |                 |                 |              |
| Commercial and industrial      | \$ 1,358,137 | \$ 45,735              | \$ 37,936       | \$ 55,158       | \$ 1,496,966 |
| Agricultural                   | 226,134      | 10,670                 | -               | 882             | 237,686      |
| Commercial real estate:        |              |                        |                 |                 |              |
| Office, retail, and industrial | 1,222,796    | 63,997                 | 45,275          | 34,831          | 1,366,899    |
| Multi-family                   | 287,789      | 2,528                  | 1,424           | 9,615           | 301,356      |
| Residential construction       | 42,500       | 21,588                 | 14,576          | 21,104          | 99,768       |
| Commercial construction        | 90,618       | 23,944                 | 7,448           | 20,297          | 142,307      |
| Other commercial real estate   | 703,618      | 65,593                 | 16,657          | 43,137          | 829,005      |
| Total commercial real estate   | 2,347,321    | 177,650                | 85,380          | 128,984         | 2,739,335    |
| Total corporate loans          | \$ 3,931,592 | \$ 234,055             | \$ 123,316      | \$ 185,024      | \$ 4,473,987 |
| December 31, 2011              |              |                        |                 |                 |              |
| Commercial and industrial      | \$ 1,308,812 | \$ 57,866              | \$ 47,616       | \$ 44,152       | \$ 1,458,446 |
| Agricultural                   | 232,270      | 10,487                 | -               | 1,019           | 243,776      |
| Commercial real estate:        |              |                        |                 |                 |              |
| Office, retail, and industrial | 1,147,026    | 78,578                 | 43,435          | 30,043          | 1,299,082    |
| Multi-family                   | 275,031      | 5,803                  | 1,015           | 6,487           | 288,336      |
| Residential construction       | 48,806       | 27,198                 | 11,756          | 18,076          | 105,836      |
| Commercial construction        | 92,568       | 23,587                 | 5,407           | 23,347          | 144,909      |
| Other commercial real estate   | 746,213      | 73,058                 | 17,428          | 51,447          | 888,146      |
| Total commercial real estate   | 2,309,644    | 208,224                | 79,041          | 129,400         | 2,726,309    |
| Total corporate loans          | \$ 3,850,726 | \$ 276,577             | \$ 126,657      | \$ 174,571      | \$ 4,428,531 |

|                      | Performing | Non-accrual | Total      |
|----------------------|------------|-------------|------------|
| March 31, 2012       |            |             |            |
| Home equity          | \$ 397,516 | \$ 8,851    | \$ 406,367 |
| 1-4 family mortgages | 212,081    | 5,648       | 217,729    |
| Installment loans    | 39,223     | 22          | 39,245     |
| Total consumer loans | \$ 648,820 | \$ 14,521   | \$ 663,341 |
| December 31, 2011    |            |             |            |
| Home equity          | \$ 408,787 | \$ 7,407    | \$ 416,194 |
| 1-4 family mortgages | 195,777    | 5,322       | 201,099    |
| Installment loans    | 42,264     | 25          | 42,289     |
| Total consumer loans | \$ 646,828 | \$ 12,754   | \$ 659,582 |

(1) Loans categorized as special mention exhibit potential weaknesses that require the close attention of management, since these potential weaknesses may result in the deterioration of repayment prospects at some future date.

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

## 7. SENIOR AND SUBORDINATED DEBT

The following table presents the Company's senior and subordinated debt by issuance.

| Senior and Subordinated Debt<br>(Dollar amounts in thousands) |                   |                      |
|---|-------------------|----------------------|
|   | March 31,<br>2012 | December 31,<br>2011 |
| 5.875% senior notes due in 2016                               |                   |                      |
| Principal amount  | \$ 115,000        | \$ 115,000           |
| Discount  | (569)             | (600)                |
| Total senior notes due in 2016                                | 114,431           | 114,400              |
| 5.85% subordinated notes due in 2016                          |                   |                      |
| Principal amount  | 50,500            | 50,500               |
| Discount  | (22)              | (24)                 |
| Total subordinated notes due in 2016                          | 50,478            | 50,476               |
| 6.95% junior subordinated debentures due in 2033              |                   |                      |
| Principal amount  | 66,253            | 87,351               |
| Discount  | (56)              | (74)                 |
| Total junior subordinated debentures due in 2033              | 66,197            | 87,277               |
| Total senior and subordinated debt                            | \$ 231,106        | \$ 252,153           |

The Company's senior and subordinated debt issuances are described in Note 11, "Senior and Subordinated Debt," contained in the Company's 2011 10-K.

In first quarter 2012, the Company redeemed and retired \$21.1 million of junior subordinated debentures at a discount of 2.25%. This transaction resulted in the recognition of a pre-tax gain of \$256,000, which is included in other noninterest income in the Condensed Consolidated Statements of Income.

## 8. EARNINGS PER COMMON SHARE

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

|   | Quarters Ended<br>March 31, |           |
|---|-----------------------------|-----------|
|   | 2012                        | 2011      |
| Net income  | \$ 7,892                    | \$ 10,044 |
| Preferred dividends                                   | -                           | (2,413)   |
| Accretion on preferred stock                          | -                           | (168)     |
| Net income applicable to non-vested restricted shares | (139)                       | (137)     |
| Net income applicable to common shares                | \$ 7,753                    | \$ 7,326  |
| Weighted-average common shares outstanding:           |                             |           |
| Weighted-average common shares outstanding (basic)    | 73,505                      | 73,151    |
| Dilutive effect of common stock equivalents           | -                           | -         |
| Weighted-average diluted common shares outstanding    | 73,505                      | 73,151    |
| Basic earnings per share                              | \$ 0.11                     | \$ 0.10   |



|  |    |       |    |       |
|--|----|-------|----|-------|
| Diluted earnings per share   | \$ | 0.11  | \$ | 0.10  |
| Anti-dilutive shares not included in the computation of diluted earnings per share (1) |    | 1,863 |    | 3,733 |

(1) Represents outstanding stock options (and a common stock warrant for the 2011 period) for which the exercise price is greater than the average market price of the Company's common stock.

## 9. INCOME TAXES

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

|  | Quarters Ended<br>March 31, |          |
|--|-----------------------------|----------|
|  | 2012                        | 2011     |
| Income before income tax expense (benefit) | \$ 9,048                    | \$ 9,953 |
| Income tax expense (benefit):              |                             |          |
| Federal income tax expense                 | \$ 845                      | \$ 910   |
| State income tax expense (benefit)         | 311                         | (1,001)  |
| Total income tax expense (benefit)         | \$ 1,156                    | \$ (91)  |
| Effective income tax rate                  | 12.8%                       | (0.9%)   |

Federal income tax expense 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 and state income taxes. State income tax expense (benefit) and the related effective tax rate are influenced by the amount of state tax-exempt income in relation to pre-tax income and state tax rules relating to consolidated/combined reporting and sourcing of income and expense.

Income tax expense for first quarter 2012 was \$1.2 million compared to an income tax benefit of \$91,000 for first quarter 2011. This increase was due primarily to a \$1.6 million state income tax benefit recorded in first quarter 2011 related to an increase in deferred tax assets resulting from an increase in the Illinois corporate tax rate from 7.3% to 9.5% effective January 1, 2011.

Our accounting policies underlying the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Notes 1 and 14 to the Consolidated Financial Statements of our 2011 10-K.

## 10. 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. The significant accounting policies related to derivative instruments and hedging activities are presented in Note 1, "Summary of Significant Accounting Policies," contained in the Company's 2011 10-K.

During the quarters ended March 31, 2012 and 2011, 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 values of the fair value hedges and the related amount of hedge ineffectiveness recognized 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 March 31, 2012 or December 31, 2011. The Company does not enter into derivative transactions for purely speculative purposes.

## 11. 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 Consolidated Statements of Financial Condition.

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

|  | March 31,<br>2012 | December 31,<br>2011 |
|--|-------------------|----------------------|
| Commitments to extend credit:                              |                   |                      |
| Home equity lines  | \$ 254,481        | \$ 257,315           |
| Credit card lines  | 21,255            | 21,257               |
| 1-4 family real estate construction                        | 10,512            | 13,300               |
| Commercial real estate                                     | 133,918           | 139,574              |
| Commercial and industrial                                  | 608,122           | 609,601              |
| Overdraft protection program (1)                           | 176,949           | 178,699              |
| All other commitments                                      | 88,051            | 129,015              |
| Total commitments  | \$ 1,293,288      | \$ 1,348,761         |
| Letters of credit:   |                   |                      |
| 1-4 family real estate construction                        | \$ 7,861          | \$ 8,661             |
| Commercial real estate                                     | 48,339            | 49,373               |
| All other  | 55,872            | 58,532               |
| Total letters of credit                                    | \$ 112,072        | \$ 116,566           |
| Unamortized fees associated with letters of credit (2) (3) | \$ 598            | \$ 668               |
| Remaining weighted-average term (in months)                | 10.10             | 9.62                 |
| Remaining lives (in years)                                 | 0.1 to 12.3       | 0.1 to 12.6          |

(1) Federal regulation regarding electronic fund transfers requires 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 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.

#### Legal Proceedings

In August 2011, 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 complaint was amended in February 2012, and the Bank filed a motion to dismiss the lawsuit in May 2012, which is pending. The lawsuit is based on the Bank's practices pursuant to debit card transactions, and alleges, among other things, that these practices 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 March 31, 2012, 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 March 31, 2012.

## 12. FAIR VALUE

Fair value represents the amount that would be received to sell an asset or paid to transfer a liability in its principal or most advantageous market in an orderly transaction between market participants at the measurement date. In accordance with fair value accounting guidance, the Company measures and reports fair value differently for various types of financial instruments.

Certain assets and liabilities are measured at fair value on a recurring and non-recurring basis in the Consolidated Statements of Financial Condition. The fair value of certain other financial instruments are not required to be measured at fair value in the Consolidated Statements of Financial Condition and are disclosed in the “Financial Instruments Required to be Disclosed at Fair Value” section of this footnote.

Certain other financial instruments, such as FHLB stock, and all non-financial instruments are excluded from the fair value accounting guidance. Therefore, any aggregation of the estimated fair values presented does not represent the underlying value of the Company.

Depending on the nature of the asset or liability, the Company uses various valuation methodologies and assumptions to estimate fair value. GAAP establishes a three-tiered fair value hierarchy based on the inputs used to measure fair value. The hierarchy is 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.
- 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. These inputs require significant management judgment or estimation, some of which use model-based techniques and may be internally developed.

Assets and liabilities are assigned to a level within the fair value hierarchy based on the lowest level of significant input used to measure fair value (i.e. if both level 2 assumptions and level 3 assumptions are used, the asset or liability is classified in level 3). Assets and liabilities may change hierarchy level due to market conditions or other circumstances. These transfers are recognized on the date of the event that prompted the transfer. There were no transfers of assets or liabilities between levels of the fair value hierarchy during the periods presented.

## Assets and Liabilities Required to be Measured at Fair Value on a Recurring Basis

The following table provides the hierarchy level and corresponding fair value for assets and liabilities required to be measured at fair value on a recurring basis in the Consolidated Statements of Financial Condition.

|                                     | Recurring Fair Value Measurements<br>(Dollar amounts in thousands) |           |         |                   |          |         |
|-------------------------------------|--|-----------|---------|-------------------|----------|---------|
|                                     | March 31, 2012   |           |         | December 31, 2011 |          |         |
|                                     | Level 1  | Level 2   | Level 3 | Level 1           | Level 2  | Level 3 |
| <b>Assets:</b>                      |  |           |         |                   |          |         |
| Trading securities:                 |  |           |         |                   |          |         |
| Money market funds                  | \$ 1,209   | \$ -      | \$ -    | \$ 1,565          | \$ -     | \$ -    |
| Mutual funds                        | 14,822   | -         | -       | 12,904            | -        | -       |
| Total trading securities            | 16,031   | -         | -       | 14,469            | -        | -       |
| Securities available-for-sale:      |  |           |         |                   |          |         |
| U.S. agency securities              | -  | 5,011     | -       | -                 | 5,035    | -       |
| CMOs                                | -  | 507,546   | -       | -                 | 384,104  | -       |
| Other residential MBSs              | -  | 136,001   | -       | -                 | 87,691   | -       |
| Municipal securities                | -  | 488,003   | -       | -                 | 490,071  | -       |
| CDOs                                | -  | -         | 13,685  | -                 | -        | 13,394  |
| Corporate debt securities           | -  | 30,733    | -       | -                 | 30,014   | -       |
| Hedge fund investment               | -  | 1,936     | -       | -                 | 1,616    | -       |
| Other equity securities             | 42   | 1,018     | -       | 41                | 1,040    | -       |
| Total securities available-for-sale | 42   | 1,170,248 | 13,685  | 41                | 999,571  | 13,394  |
| Mortgage servicing rights (1)       | -  | -         | 878     | -                 | -        | 929     |
| <b>Liabilities:</b>                 |  |           |         |                   |          |         |
| Derivative liabilities (2)          | \$ -   | \$ 2,319  | \$ -    | \$ -              | \$ 2,459 | \$ -    |

(1)Included in other assets in the Consolidated Statements of Financial Condition.

(2)Included in other liabilities in the Consolidated Statements of Financial Condition.

## 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 classified in level 1 of the fair value hierarchy. Changes in the fair value of trading securities

are included as a separate component of noninterest income in the Condensed Consolidated Statements of Income.



## Securities Available-for-Sale

U.S. Agency Securities, CMOs, Other Residential MBSs, Municipal Securities, Corporate Debt Securities, and Other Equity Securities – These securities are primarily fixed income instruments that are not quoted on an exchange, but may be traded in active markets. The fair values are based on quoted prices in active markets or market prices for similar securities obtained from external pricing services or dealer market participants and are classified in level 2 of the fair value hierarchy. Quarterly, the Company evaluates the methodologies used by its external pricing services to develop the fair values to determine whether the results of the valuations are representative of an exit price in the Company’s principal markets and an appropriate representation of fair value.

CDOs – CDOs are classified in level 3 of the fair value hierarchy.

## Rollforward of the Carrying Value of CDOs

(Dollar amounts in thousands)

|   | Quarters Ended<br>March 31, |           |
|---|-----------------------------|-----------|
|   | 2012                        | 2011      |
| Balance at beginning of period  | \$ 13,394                   | \$ 14,858 |
| Total (loss) income:  |                             |           |
| Included in earnings (1)  | (721)                       | -         |
| Included in other comprehensive income (2)  | 1,012                       | 1,335     |
| Purchases   | -                           | -         |
| Sales   | -                           | -         |
| Issuances   | -                           | -         |
| Settlements   | -                           | -         |
| Balance at end of period  | \$ 13,685                   | \$ 16,193 |
| Change in unrealized losses recognized in earnings relating to securities still held at end of period | \$ (721)                    | \$ -      |

(1)Included in net securities (losses) gains in the Condensed Consolidated Statements of Income and related to securities still held at the end of the period.

(2)Included in unrealized holding gains in the Consolidated Statements of Comprehensive Income.

The Company estimates the fair values for each CDO using discounted cash flow analyses with the assistance of a structured credit valuation firm. These analyses rely on credit analysis and review of historical financial data for each of the issuers of the securities underlying the individual CDO (the “Issuers”) to estimate the cash flows. These estimates are highly subjective and sensitive to several significant, unobservable input assumptions, including prepayment assumptions, default probabilities, loss given default assumptions, and deferral cure probabilities. The cash flows for each Issuer are then discounted to their present values using LIBOR plus an adjustment to reflect the higher risk inherent in these securities given their complex structures and the impact of the current market environment. Finally, the discounted cash flows for each Issuer are aggregated to derive the estimated fair value for the specific CDO. Specific information for each CDO, as well as the significant unobservable assumptions, is presented in the following table.



Characteristics of CDOs and Unobservable Inputs Significant  
to the Valuation of CDOs as of March 31, 2012  
(Dollar amounts in thousands)

| Characteristics:  | CDO Number (1) |           |           |           |           |          |
|---|----------------|-----------|-----------|-----------|-----------|----------|
|   | 1              | 2         | 3         | 4         | 5         | 6        |
| Class (2)   | C-1            | C-1       | C-1       | B1        | C         | C        |
| Original par  | \$ 17,500      | \$ 15,000 | \$ 15,000 | \$ 15,000 | \$ 10,000 | \$ 6,500 |
| Amortized cost  | 7,140          | 6,490     | 12,990    | 13,922    | 1,317     | 6,179    |
| Fair value  | 3,180          | 1,251     | 2,963     | 4,168     | 408       | 1,715    |
| Lowest credit rating<br>(Moody's)                                     | Ca             | Ca        | Ca        | Ca        | C         | Ca       |
| Number of underlying<br>Issuers                                       | 46             | 57        | 62        | 63        | 56        | 79       |
| Percent of Issuers<br>currently performing                            | 78.3%          | 78.9%     | 74.2%     | 55.6%     | 60.7%     | 67.1%    |
| Current deferral and<br>default percent (3)                           | 14.6%          | 16.9%     | 12.8%     | 33.3%     | 40.4%     | 27.2%    |
| Expected future deferral<br>and default<br>percent (4)                | 19.9%          | 22.1%     | 16.1%     | 28.6%     | 27.2%     | 12.8%    |
| Excess subordination<br>percent (5)                                   | 0.0%           | 0.0%      | 1.0%      | 0.0%      | 0.0%      | 5.6%     |
| Discount rate risk<br>adjustment, in basis<br>points (6)              | 1,400          | 1,400     | 1,400     | 1,300     | 1,400     | 1,300    |
| Significant unobservable assumptions, weighted<br>average of Issuers: |                |           |           |           |           |          |
| Probability of<br>prepayments   | 8.3%           | 4.3%      | 3.2%      | 7.0%      | 7.2%      | 3.2%     |
| Probability of default  | 22.9%          | 27.5%     | 21.5%     | 29.2%     | 39.9%     | 28.1%    |
| Loss given default  | 88.2%          | 88.7%     | 89.8%     | 92.6%     | 92.7%     | 95.3%    |
| Probability of deferral<br>cure                                       | 31.8%          | 24.0%     | 30.4%     | 42.9%     | 32.1%     | 51.1%    |

(1)The Company has a seventh CDO, but no information is reported for that CDO since the security had an amortized cost and fair value of zero as of March 31, 2012.

(2)Class refers to the Company's tranche within the security. In a structured investment, a tranche is one of a number of related securities offered as part of the same transaction and relates to the order in which investors receive principal and interest payments (i.e. tranche B pays before tranche C).

(3)Represents actual deferrals and defaults, net of recoveries, as a percent of the original collateral.

(4)Represents expected future net deferrals and defaults, net of recoveries, as a percent of the remaining performing collateral.

(5)Represents additional 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.

(6) Cash flows are discounted at LIBOR plus this adjustment to reflect the higher risk inherent in these securities given the current market environment.

Most Issuers have the right to prepay the securities on the fifth anniversary of issuance and under other limited circumstances. To estimate prepayments, a credit analysis of each Issuer is performed to ascertain its ability and likelihood to fund a prepayment. If a prepayment occurs, the Company receives cash equal to the par value for the portion of the CDO associated with that Issuer. Since there are a number of Issuers underlying each CDO, prepayments by a small number of Issuers would not likely have a material impact on the fair value of the CDO.

The probability of future defaults is derived for each Issuer based on a credit analysis. The associated assumed loss given default is based on historical default and recovery information provided by a nationally recognized credit rating agency and is assumed to be 90% for banks, 85% for insurance companies, and 100% for Issuers that have already defaulted.

The likelihood an Issuer who is currently deferring payment on the securities will pay all deferred amounts and remain current thereafter is based on an analysis of the Issuer's asset quality, leverage ratios, and other measures of financial viability.

The impact of changes in these key inputs could result in a significantly higher or lower fair value measurement for each CDO. The timing of the default, the magnitude of the default, and the timing and magnitude of the cure probability are directly interrelated. Defaults that occur sooner and/or are greater than anticipated have a negative impact on the valuation. In addition, a high cure probability assumption has a positive effect on the fair value, and, if a cure event takes place sooner than anticipated, the impact on the valuation is also favorable.

The Company's Treasury Department monitors the valuation results of each CDO on a quarterly basis, which includes an analysis of historical pricing trends for these types of securities, overall economic conditions (such as tracking LIBOR curves), and the performance of the Issuers' industries. The Company's Treasury Department also reviews market activity for the same or similar tranches of the CDOs, when available. Annually, it validates significant assumptions by reviewing detailed back-testing performed by the valuation firm.

Hedge Fund Investment – The Company's hedge fund investment is 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.

#### Mortgage Servicing Rights

The Company services loans for others totaling \$74.7 million as of March 31, 2012 and \$78.6 million as of December 31, 2011. These loans are owned by third parties and are not included in the Consolidated Statements of Condition. The Company estimates the fair value of mortgage servicing rights by using a discounted cash flow analysis and classifies them in level 3 of the fair value hierarchy. Additional information regarding the Company's mortgage servicing rights can be found in Footnote 22, "Fair Value," in the Company's 2011 10-K.

#### 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. The market quotes were developed using market observable inputs, which primarily include LIBOR. 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.

#### Assets and Liabilities Required to be Measured at Fair Value on a Non-recurring Basis

The following table provides the hierarchy level and corresponding fair value for each class of assets and liabilities required to be measured at fair value on a non-recurring basis in the Consolidated Statements of Financial Condition.

#### Non-recurring Fair Value Measurements (Dollar amounts in thousands)

|                                     | March 31, 2012 |         |            | December 31, 2011 |         |           |
|-------------------------------------|----------------|---------|------------|-------------------|---------|-----------|
|                                     | Level 1        | Level 2 | Level 3    | Level 1           | Level 2 | Level 3   |
| Collateral-dependent impaired loans | \$ -           | \$ -    | \$ 120,190 | \$ -              | \$ -    | \$ 96,220 |
| OREO (1)                            | -              | -       | 52,266     | -                 | -       | 57,430    |
| Loans held-for-sale (2)             | -              | -       | 1,500      | -                 | -       | 4,200     |
| Assets held-for-sale (3)            | -              | -       | 7,933      | -                 | -       | 7,933     |

(1)Includes covered OREO.

(2)Included in other assets in the Consolidated Statements of Financial Condition.

(3)

Included in premises, furniture, and equipment in the Consolidated Statements of Financial Condition.

#### Collateral-Dependent Impaired Loans

Certain collateral-dependent impaired loans are subject to fair value adjustments to reflect the difference between the carrying value of the loans and the value of the underlying collateral. The fair values of collateral-dependent impaired loans are primarily determined by current appraised values of the underlying collateral, net of estimated selling costs, which range from 0% - 6%. Circumstances may warrant an adjustment to the appraised value based on the age and/or type of appraisal, and these adjustments typically range from 0% - 20%. Generally, appraisals greater than twelve months old are adjusted to account for estimated declines in the real estate market until an updated appraisal can be obtained. In addition, the Company may adjust appraised values to account for differences in disposition strategies, such as adjusting a “stabilized” value to an “orderly liquidation” value. In certain cases, an internal valuation may be used when the underlying collateral is located in areas where comparable sales data is limited or unavailable. Accordingly, collateral-dependent impaired loans are classified in level 3 of the fair value hierarchy.

Collateral-dependent impaired loans for which the fair value is greater than the recorded investment are not measured at fair value in the Consolidated Statements of Financial Condition and are not included in this disclosure.

#### Other Real Estate Owned

OREO consists of properties acquired through foreclosure in partial or total satisfaction of certain loans. Upon initial transfer into OREO, properties are recorded at the lower of the recorded investment in the related loan(s) or the fair value, which represents the current appraised value of the properties, less estimated selling costs (which range from 0% - 6%). In certain circumstances, a current appraisal may not be available or the current appraised value may not represent an accurate measurement of the property's fair value due to 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) broker price opinion, (iii) current listing price, or (iv) signed sales contract. Given these valuation methods, OREO is classified in level 3 of the fair value hierarchy. Any write-downs in the carrying value of a property at the time of initial transfer into OREO are charged against the allowance for loan losses.

Subsequent to the initial transfer, periodic impairment analyses of OREO are performed, and new appraisals are obtained as necessary taking 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 the Company's operating results in the period in which they occur.

#### Loans Held-for-Sale

As of March 31, 2012, one office loan was classified as held-for-sale, and it was transferred into the held-for-sale category at the sales contract price. Accordingly, the loan held-for-sale is classified in level 3 of the fair value hierarchy.

#### Assets Held-for-Sale

In the second quarter of 2011, the Company entered into an agreement to sell an office property and classified it as held-for-sale. The fair value of the property is based on a third quarter 2011 sales contract price and classified in level 3 of the fair value hierarchy.

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

|                                     | Quarters Ended March 31,                   |                        |  |                        |
|-------------------------------------|--|------------------------|--|------------------------|
|                                     | 2012                                       |                        | 2011                                       |                        |
|                                     | Charged to<br>Allowance for<br>Loan Losses | Charged to<br>Earnings | Charged to<br>Allowance for<br>Loan Losses | Charged to<br>Earnings |
| Collateral-dependent impaired loans | \$ 18,740                                  | \$ -                   | \$ 16,810                                  | \$ -                   |
| OREO                                | -  | 690                    | -  | 1,112                  |
| Loans held-for-sale                 | 3,135                                      | -                      | 200  | -                      |
| Assets held-for-sale                | -  | -                      | -  | 310                    |

#### Goodwill and Other Intangible Assets

Goodwill and other intangible assets are subject to impairment testing, which requires a significant degree of management judgment and the use of significant unobservable inputs. Goodwill is tested at least annually for impairment or more often if events or circumstances between annual tests indicate that there may be impairment. If the testing had resulted in impairment, the Company would have classified goodwill and other intangible assets subjected to nonrecurring fair value adjustments as a level 3 nonrecurring fair value measurement. Additional information regarding goodwill, other intangible assets, and impairment policies can be found in Note 1, "Summary of Significant Accounting Policies," and Note 8, "Goodwill and Other Intangible Assets," contained in the Company's 2011 Form 10-K.



## Financial Instruments Required to be Disclosed at Fair Value

The Company is required to disclose the estimated fair values of certain financial instruments that are not required to be measured at fair value in the Consolidated Statements of Financial Position. The following table provides the hierarchy level and related fair value measurement for each class of these financial assets and liabilities.

Financial Instruments Required to be Disclosed at Fair Value  
(Dollar amounts in thousands)

|  | Carrying<br>Amount | March 31, 2012 |                       |           | Carrying<br>Amount | December 31, 2011 |                       |           |
|--|--------------------|----------------|-----------------------|-----------|--------------------|-------------------|-----------------------|-----------|
|  |                    | Level 1        | Fair Value<br>Level 2 | Level 3   |                    | Level 1           | Fair Value<br>Level 2 | Level 3   |
| Assets:  |                    |                |                       |           |                    |                   |                       |           |
| Cash and due<br>from banks                     | \$ 105,722         | \$ 105,722     | \$ -                  | \$ -      | \$ 123,354         | \$ 123,354        | \$ -                  | \$ -      |
| Interest-bearing<br>deposits in<br>other banks | 380,651            | -              | 380,651               | -         | 518,176            | -                 | 518,176               | -         |
| Securities<br>held-to-<br>maturity:            |                    |                |                       |           |                    |                   |                       |           |
| Municipal<br>securities                        | 56,319             | -              | 59,364                | -         | 60,458             | -                 | 61,477                | -         |
| Loans, net of<br>allowance for<br>loan losses: |                    |                |                       |           |                    |                   |                       |           |
| Commercial<br>and industrial                   | 1,496,966          | -              | -                     | 1,498,870 | 1,458,446          | -                 | -                     | 1,460,972 |
| Agricultural                                   | 237,686            | -              | -                     | 236,753   | 243,776            | -                 | -                     | 243,035   |
| Office, retail,<br>and<br>industrial           | 1,366,899          | -              | -                     | 1,375,680 | 1,299,082          | -                 | -                     | 1,303,288 |
| Multi-family<br>Residential<br>construction    | 301,356            | -              | -                     | 304,217   | 288,336            | -                 | -                     | 290,645   |
| Commercial<br>construction                     | 99,768             | -              | -                     | 100,165   | 105,836            | -                 | -                     | 106,145   |
| Other<br>commercial real<br>estate             | 142,307            | -              | -                     | 142,503   | 144,909            | -                 | -                     | 145,305   |
| Home equity<br>1-4 family<br>mortgages         | 829,005            | -              | -                     | 833,919   | 888,146            | -                 | -                     | 890,275   |
| Installment<br>loans                           | 406,367            | -              | -                     | 387,653   | 416,194            | -                 | -                     | 394,404   |
| Covered loans                                  | 217,729            | -              | -                     | 222,162   | 201,099            | -                 | -                     | 206,115   |
| Allowance for<br>loan losses                   | 39,245             | -              | -                     | 40,218    | 42,289             | -                 | -                     | 43,030    |
|  | 251,376            | -              | -                     | 274,983   | 260,502            | -                 | -                     | 288,021   |
|  | (116,264)          | -              | -                     | (116,264) | (119,462)          | -                 | -                     | (119,462) |

|   |              |         |              |           |              |         |              |           |
|---|--------------|---------|--------------|-----------|--------------|---------|--------------|-----------|
| Loans, net of allowance for loan losses | 5,272,440    | -       | -            | 5,300,859 | 5,229,153    | -       | -            | 5,251,773 |
| FDIC indemnification asset              | 58,488       | -       | -            | 31,486    | 65,609       | -       | -            | 37,173    |
| Accrued interest receivable             | 29,423       | -       | 29,423       |           | 29,826       | -       | 29,826       |           |
| Investment in BOLI                      | 206,304      | -       | -            | 206,304   | 206,235      | -       | -            | 206,235   |
| Liabilities:                            |              |         |              |           |              |         |              |           |
| Deposits                                |              |         |              |           |              |         |              |           |
| Demand deposits                         |              |         |              |           |              |         |              |           |
|   | \$ 1,637,593 | \$ -    | \$ 1,637,593 | \$ -      | \$ 1,593,773 | \$ -    | \$ 1,593,773 | \$ -      |
| Savings deposits                        |              |         |              |           |              |         |              |           |
|   | 1,030,554    | -       | 1,030,554    | -         | 970,016      | -       | 970,016      | -         |
| NOW accounts                            | 1,055,558    | -       | 1,055,558    | -         | 1,057,887    | -       | 1,057,887    | -         |
| Money market deposits                   |              |         |              |           |              |         |              |           |
|   | 1,173,388    | -       | 1,173,388    | -         | 1,198,382    | -       | 1,198,382    | -         |
| Time deposits                           | 1,589,270    | -       | 1,591,759    | -         | 1,659,117    | -       | 1,659,251    | -         |
| Total deposits                          | 6,486,363    | -       | 6,488,852    | -         | 6,479,175    | -       | 6,479,309    | -         |
| Borrowed funds                          | 202,155      | -       | 205,777      | -         | 205,371      | -       | 208,728      | -         |
| Senior and subordinated debt            |              |         |              |           |              |         |              |           |
|   | 231,106      | 226,442 | -            | -         | 252,153      | 237,393 | -            | -         |
| Accrued interest payable                | 7,155        | -       | 7,155        | -         | 4,019        | -       | 4,019        | -         |
| Standby letters of credit               | 598          | -       | 598          | -         | 668          | -       | 668          | -         |

Management uses various methodologies and assumptions as described below to determine the estimated fair values of the Company's financial instruments. The fair value estimates are made at a discrete point in time based on relevant market information and consider management's judgments regarding future expected economic conditions, loss experience, and risk characteristics of the financial instruments.

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, interest-bearing deposits in other 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 the present value of the future cash flows of the remaining maturities of the loans. Prepayment assumptions that consider the Company's historical experience and current economic and lending conditions were included. The discount rate was based on the LIBOR yield curve with adjustments for liquidity and credit risk.

**Covered Loans** - The fair value of the covered loan portfolio is determined by discounting the expected cash flows at a market interest rate, which is derived from LIBOR swap rates over the life of these loans. The expected cash flows are determined using the contractual terms of the covered loans, net of any projected credit losses. For valuation purposes, these loans are placed into groups with similar characteristics and risk factors. The timing and amount of credit losses for each group are estimated using historical default and loss experience, current collateral valuations, borrower credit scores, and internal risk ratings. For individually significant loans or credit relationships, the estimated fair value is determined by a specific loan level review utilizing appraised values for collateral and projections of the timing and amount of cash flows.

**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. The future cash flows are estimated by multiplying expected losses on covered loans and covered OREO by the reimbursement rates set forth in the FDIC Agreements. Improvements in estimated cash flows on covered loans and covered OREO generally result in a corresponding decline in the indemnification asset, while reductions in expected reimbursements from the FDIC lead to an increase in the indemnification asset.

**Investment in BOLI** - The fair value of BOLI approximates the carrying amount as both are based on each policy's respective cash surrender value ("CSV"), which is the amount the Company would receive upon liquidation of these investments. The CSV is derived from monthly reports provided by the managing brokers and is determined using the Company's initial insurance premium and earnings of the underlying assets, offset by management fees.

**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 the future cash flows discounted 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.

**Senior and Subordinated Debt** - The fair value of senior and subordinated debt was determined using quoted market prices.

**Standby Letters of Credit** - The fair value of standby letters of credit represents 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 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.

### 13. SUBSEQUENT EVENTS

The Company evaluated the impact of events that occurred subsequent to March 31, 2012 through the date its consolidated financial statements were issued. Based on the evaluation, management does not believe any subsequent events occurred that would require further disclosure or adjustment to the consolidated financial statements.

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

### INTRODUCTION

The following discussion and analysis is intended to address the significant factors affecting our results of operations and financial condition for the quarters ended March 31, 2012 and 2011. When we use the terms "First Midwest," the "Company," "we," "us," and "our," we mean First Midwest Bancorp, Inc., a Delaware Corporation, and its consolidated subsidiaries. When we use the term "Bank," we are referring to our wholly owned banking subsidiary, First Midwest Bank. For your reference, a glossary of certain terms is presented on page 3 of this Form 10-Q. 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 2011 Annual Report on Form 10-K ("2011 10-K"). Results of operations for the quarter ended March 31, 2012 are not necessarily indicative of future results.

Our banking network is located primarily in suburban metropolitan Chicago with additional locations in northwest Indiana, central and western Illinois, and eastern Iowa. We provide a full range of business and retail banking and wealth management 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.

Our results of operations are affected by various factors, many of which are beyond our control, including interest rates, general economic conditions (nationally and in our service areas), business spending, consumer confidence, certain seasonal factors, legislative changes, and changes in real estate and securities markets. Our management evaluates performance using a variety of qualitative and quantitative metrics. Primary quantitative metrics include:

- **Pre-Tax, Pre-Provision Operating Earnings** - Pre-tax, pre-provision operating earnings (which reflect our operating performance before the effects of credit-related charges and other unusual, infrequent, or non-recurring revenues and expenses) is a non-GAAP financial measure, which we believe is useful because it helps investors to assess the Company's operating performance. A reconciliation of pre-tax, pre-provision operating earnings to GAAP can be found in Table 1.
- **Net Interest Income** - Net interest income is our primary source of revenue. Net interest income equals the difference between interest income and fees earned on interest-earning assets (such as loans and securities) and interest expense incurred on interest-bearing liabilities (such as deposits and borrowed funds).
  - **Net Interest Margin** - Net interest margin equals net interest income divided by total interest-earning assets.
- **Noninterest Income** - Noninterest income is the income we earn from fee-based revenues (such as service charges on deposit accounts and wealth management fees), BOLI and other income, and non-operating revenues (such as securities gains and losses).
- **Asset Quality** - Asset quality is an estimation of the quality of our loan portfolio, including an assessment of the credit risk related to existing and potential loss exposure, and incorporates an evaluation of a variety of factors, such as non-performing loans to total loans.
- **Regulatory Capital** - Our regulatory capital is classified in one of the following two tiers: (i) Tier 1 capital consists of common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, and qualifying trust-preferred securities, less goodwill and most intangible assets and (ii) Tier 2 capital includes qualifying subordinated debt and the allowance for credit losses, subject to limitations.

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

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

|   | Quarters Ended<br>March 31, |           |          |
|---|-----------------------------|-----------|----------|
|   | 2012                        | 2011      | % Change |
| <b>Operating Results</b>  |                             |           |          |
| Interest income   | \$ 75,268                   | \$ 81,283 | (7.4)    |
| Interest expense  | (10,086)                    | (10,637)  | (5.2)    |
| Net interest income   | 65,182                      | 70,646    | (7.7)    |
| Fee-based revenues  | 22,592                      | 21,703    | 4.1      |
| Other noninterest income  | 2,784                       | 1,974     | 41.0     |
| <b>Noninterest expense, excluding losses realized on OREO (2)</b> |                             |           |          |
| Pre-tax, pre-provision operating earnings (3)                     | 28,563                      | 31,132    | (8.3)    |
| Provision for loan losses   | (18,210)                    | (19,492)  | (6.6)    |
| Net (losses) gains on securities sales                            | (206)                       | 540       | N/M      |
| Securities impairment losses                                      | (737)                       | -         | 100.0    |
| Gain on early extinguishment of debt                              | 256                         | -         | 100.0    |
| Write-downs of OREO (2)   | (690)                       | (1,112)   | (37.9)   |
| Net gains (losses) on sales of OREO (2)                           | 387                         | (1,115)   | N/M      |
| Severance-related costs (2)                                       | (315)                       | -         | 100.0    |
| Income before income tax  | 9,048                       | 9,953     | (9.1)    |
| Income tax (expense) benefit                                      | (1,156)                     | 91        | N/M      |
| Net income  | 7,892                       | 10,044    | (21.4)   |
| Preferred dividends and accretion on preferred stock              | -                           | (2,581)   | (100.0)  |
| Net income applicable to non-vested restricted shares             | (139)                       | (137)     | 1.5      |
| Net income applicable to common shares                            | \$ 7,753                    | \$ 7,326  | 5.8      |
| Weighted average diluted shares outstanding                       | 73,505                      | 73,151    |          |
| Diluted earnings per common share                                 | \$ 0.11                     | \$ 0.10   |          |
| <b>Performance Ratios (1)</b>                                     |                             |           |          |
| Return on average common equity                                   | 3.21%                       | 3.20%     |          |
| Return on average assets  | 0.40%                       | 0.50%     |          |
| Net interest margin – tax equivalent                              | 3.88%                       | 4.15%     |          |
| Efficiency ratio  | 64.62%                      | 62.70%    |          |

N/M – Not meaningful.

(1) All ratios are presented on an annualized basis.

(2) For further discussion of net gains (losses) OREO and severance-related costs, see the “Noninterest Expense” section of this Item 2.

(3) Our accounting and reporting policies conform to GAAP and general practice within the banking industry. As a supplement to GAAP, we provided this non-GAAP performance result, which we believe is useful because it assists investors in assessing our operating performance. Although it is intended to enhance investors’ understanding of our business and performance, this non-GAAP financial measure should not be considered an

alternative to GAAP.



|   | March 31,<br>2012 | December 31,<br>2011 | March 31,<br>2011 | December 31,<br>2011 | March 31, 2012<br>Change From<br>March 31,<br>2011 |
|---|-------------------|----------------------|-------------------|----------------------|--|
| <b>Balance Sheet Highlights</b>                   |                   |                      |                   |                      |  |
| Total assets                                      | \$ 7,988,002      | \$ 7,973,594         | \$ 8,036,609      | \$ 14,408            | \$ (48,607)  |
| Total loans, excluding covered loans              | 5,137,328         | 5,088,113            | 5,095,543         | 49,215               | 41,785   |
| Total loans, including covered loans              | 5,388,704         | 5,348,615            | 5,444,989         | 40,089               | (56,285)   |
| Total deposits                                    | 6,486,363         | 6,479,175            | 6,419,894         | 7,188                | 66,469   |
| Transactional deposits                            | 4,897,093         | 4,820,058            | 4,545,670         | 77,035               | 351,423  |
| Loans, excluding covered loans, to deposits ratio | 79.2%             | 78.5%                | 79.4%             |                      |  |
| Transactional deposits to total deposits          | 75.5%             | 74.4%                | 70.8%             |                      |  |

|  | March 31,<br>2012 | December<br>31,<br>2011 | March 31,<br>2011 | December 31,<br>2011 | March 31, 2012<br>Change From<br>March 31,<br>2011 |
|--|-------------------|-------------------------|-------------------|----------------------|--|
| <b>Asset Quality Highlights</b>                          |                   |                         |                   |                      |  |
| <b>(1)</b>   |                   |                         |                   |                      |  |
| Non-accrual loans  | \$ 199,545        | \$ 187,325              | \$ 186,563        | \$ 12,220            | \$ 12,982  |
| 90 days or more past due loans (still accruing interest) | 7,674             | 9,227                   | 5,231             | (1,553)              | 2,443  |
| Total non-performing loans                               | 207,219           | 196,552                 | 191,794           | 10,667               | 15,425   |
| TDRs (still accruing interest)                           | 2,076             | 17,864                  | 14,120            | (15,788)             | (12,044)   |
| Other real estate owned                                  | 35,276            | 33,975                  | 33,863            | 1,301                | 1,413  |
| Total non-performing assets                              | \$ 244,571        | \$ 248,391              | \$ 239,777        | \$ (3,820)           | \$ 4,794   |
| 30-89 days past due loans (still accruing interest)      | \$ 21,241         | \$ 27,495               | \$ 28,927         | \$ (6,254)           | \$ (7,686)   |
| Allowance for credit losses                              | \$ 118,764        | \$ 121,962              | \$ 145,003        | \$ (3,198)           | \$ (26,239)  |
| Allowance for credit losses as a percent of loans        | 2.31%             | 2.40%                   | 2.85%             |                      |  |
| Allowance for credit losses to non-accrual loans         | 60%               | 65%                     | 78%               |                      |  |

(1)

Excludes covered loans and covered OREO. For a discussion of covered assets, which consist of covered loans, covered OREO, and the related FDIC indemnification asset, 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 “Loan Portfolio and Credit Quality” section of this Item 2.

Net income applicable to common shareholders for first quarter 2012 was \$7.8 million, or \$0.11 per share, compared to net income applicable to common shareholders of \$7.3 million, or \$0.10 per share, for first quarter 2011. Pre-tax, pre-provision operating earnings of \$28.6 million for first quarter 2012 decreased \$2.6 million, or 8.3%, compared to first quarter 2011.

In fourth quarter 2011, we redeemed and retired \$193.0 million Series B preferred stock held by the United States Department of the Treasury (the “Treasury”) using a combination of existing liquid assets and proceeds from the completion of a \$115.0 million senior debt offering. This transaction replaced a \$2.4 million quarterly preferred dividend with \$1.8 million in quarterly interest expense on the new senior debt. Although the Series B preferred stock redemption eliminated our quarterly preferred dividends and benefited net income applicable to common shares, it did not impact pre-tax, pre-provision operating earnings. The additional interest expense related to the senior debt reduced our quarterly pre-tax, pre-provision operating earnings and affects its comparison to prior periods.

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 \$244.6 million at March 31, 2012, decreasing \$3.8 million, or 1.5%, from December 31, 2011. The reduction was substantially due to remediation activities, charge-offs, the

return of \$16.0 million in TDRs to performing status, and \$8.5 million in OREO dispositions, largely offset by the downgrade of performing loans.

Loans 30 to 89 days past due and still accruing interest, excluding covered loans, of \$21.2 million at March 31, 2012 declined \$6.3 million, or 22.7%, from December 31, 2011. This represents the lowest level of 30 to 89 days past due loans since 2003. For further discussion of non-performing assets and past due loans, refer to the "Loan Portfolio and Credit Quality" section of this Item 2.

## EARNINGS PERFORMANCE

### Net Interest Income

Net interest income is our primary source of revenue. Net interest income equals the difference between interest income and fees earned on interest-earning assets (such as loans and securities) and interest expense incurred on interest-bearing liabilities (such as deposits and borrowed funds). Interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income. Net interest margin equals net interest income divided by 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 to the Consolidated Financial Statements of our 2011 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 were 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, they should not be considered an alternative to GAAP. The effect of this adjustment is at the bottom of Table 2.

Table 2 summarizes our average interest-earning assets and interest-bearing liabilities for the quarters ended March 31, 2012 and 2011, the related interest income and interest expense for each earning asset category and funding source, and the average interest rates earned and paid. Table 2 also details differences in interest income and expense from the prior year and the extent to which any changes are attributable to volume and rate fluctuations.

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

|  | Quarters Ended March 31, |          |                       |                    |          |                       | Attribution of Change<br>in Net Interest Income (1) |                |         |
|--|--------------------------|----------|-----------------------|--------------------|----------|-----------------------|---|----------------|---------|
|  | 2012                     |          |                       | 2011               |          |                       | Volume  | Yield/<br>Rate | Total   |
|  | Average<br>Balance       | Interest | Yield/<br>Rate<br>(%) | Average<br>Balance | Interest | Yield/<br>Rate<br>(%) |   |                |         |
| <b>Assets:</b>                               |                          |          |                       |                    |          |                       |   |                |         |
| Short-term investments                       | \$ 449,788               | \$ 275   | 0.25                  | \$ 467,880         | \$ 292   | 0.25                  | \$ (11)   | \$ (6)         | \$ (17) |
| Trading securities                           | 14,585                   | 36       | 0.99                  | 15,372             | 30       | 0.78                  | (1)   | 7              | 6       |
| Investment securities (2)                    | 1,163,338                | 11,734   | 4.03                  | 1,166,991          | 13,048   | 4.47                  | (41)  | (1,273)        | (1,314) |
| FHLB and Federal Reserve Bank stock          | 52,531                   | 330      | 2.51                  | 61,338             | 357      | 2.33                  | (60)  | 33             | (27)    |
| Loans, excluding covered loans (2)           | 5,089,286                | 61,983   | 4.90                  | 5,075,840          | 63,301   | 5.06                  | 215   | (1,533)        | (1,318) |
| Covered interest-earning assets (3)          | 318,569                  | 4,202    | 5.31                  | 444,242            | 7,822    | 7.14                  | (1,919)   | (1,701)        | (3,620) |
| Total loans                                  | 5,407,855                | 66,185   | 4.92                  | 5,520,082          | 71,123   | 5.23                  | (1,704)   | (3,234)        | (4,938) |
| Total interest-earning assets (2)            | 7,088,097                | 78,560   | 4.45                  | 7,231,663          | 84,850   | 4.75                  | (1,817)   | (4,473)        | (6,290) |
| Cash and due from banks                      | 109,717                  |          |                       | 121,494            |          |                       |   |                |         |
| Allowance for loan losses                    | (123,667)                |          |                       | (148,051)          |          |                       |   |                |         |
| Other assets                                 | 883,044                  |          |                       | 889,845            |          |                       |   |                |         |
| Total assets                                 | \$ 7,957,191             |          |                       | \$ 8,094,951       |          |                       |   |                |         |
| <b>Liabilities and Stockholders' Equity:</b> |                          |          |                       |                    |          |                       |   |                |         |
| Savings deposits                             | \$ 995,955               | 283      | 0.11                  | \$ 901,205         | 476      | 0.21                  | 57  | (250)          | (193)   |
| NOW accounts                                 | 1,051,870                | 218      | 0.08                  | 1,044,280          | 320      | 0.12                  | 2   | (104)          | (102)   |
| Money market deposits                        | 1,184,316                | 521      | 0.18                  | 1,240,439          | 860      | 0.28                  | (37)  | (302)          | (339)   |
| Time deposits                                | 1,621,926                | 4,491    | 1.11                  | 1,937,890          | 6,015    | 1.26                  | (917)   | (607)          | (1,524) |
| Borrowed funds                               | 203,548                  | 515      | 1.02                  | 285,847            | 680      | 0.96                  | (211)   | 46             | (165)   |
| Senior and subordinated debt                 | 248,232                  | 4,058    | 6.57                  | 137,745            | 2,286    | 6.73                  | 1,805   | (33)           | 1,772   |
| Total interest-bearing liabilities           | 5,305,847                | 10,086   | 0.76                  | 5,547,406          | 10,637   | 0.78                  | 699   | (1,250)        | (551)   |
| Demand deposits                              | 1,591,198                |          |                       | 1,342,013          |          |                       |   |                |         |
| Other liabilities                            | 89,778                   |          |                       | 83,217             |          |                       |   |                |         |

|  |              |      |              |      |            |            |            |  |
|--|--------------|------|--------------|------|------------|------------|------------|--|
| Stockholders' equity - common              | 970,368      |      | 929,315      |      |            |            |            |  |
| Stockholders' equity - preferred           | -            |      | 193,000      |      |            |            |            |  |
| Total liabilities and stockholders' equity | \$ 7,957,191 |      | \$ 8,094,951 |      |            |            |            |  |
| Net interest income/margin (2)             | \$ 68,474    | 3.88 | \$ 74,213    | 4.15 | \$ (2,516) | \$ (3,223) | \$ (5,739) |  |
| Net interest income (GAAP)                 | \$ 65,182    |      | \$ 70,646    |      |            |            |            |  |
| Tax equivalent adjustment                  | 3,292        |      | 3,567        |      |            |            |            |  |
| Tax-equivalent net interest income         | \$ 68,474    |      | \$ 74,213    |      |            |            |            |  |

- (1) For purposes of this table, changes which are not due solely to volume changes or rate changes are allocated to these 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 Note 5 of "Notes to Consolidated Financial Statements" in Item 1 of this Form 10-Q.

Average interest-earning assets for first quarter 2012 decreased \$143.6 million, or 2.0%, from first quarter 2011. This reduction was primarily attributable to a decline in average covered interest-earning assets acquired in FDIC-assisted transactions.

First quarter 2012 tax-equivalent net interest income decreased \$5.7 million, or 7.7%, compared to first quarter 2011. Tax-equivalent interest income declined \$6.3 million due to a 30 basis point decline in tax-equivalent yield discussed below. Interest expense declined \$551,000, as a reduction in interest expense paid on time and other deposits was partially offset by an increase in interest expense paid on senior and subordinated debt.

The growth in average senior and subordinated debt for first quarter 2012 compared to first quarter 2011 reflects the issuance of \$115.0 million in senior debt in fourth quarter 2011, which was used to partially fund the redemption of the Series B

preferred stock issued to the Treasury. Interest expense paid on the new senior debt reduced net interest margin by 10 basis points in first quarter 2012.

Tax-equivalent net interest margin for first quarter 2012 was 3.88%, a decline of 27 basis points from first quarter 2011, primarily reflecting interest paid on the new senior debt, a decline in average covered interest-earning assets, and the impact of lower interest rate spreads earned on loans and investment securities resulting from a decline in market interest rates over this period.

Interest earned on covered loans is generally recognized through the accretion of the discount taken on expected future cash flows. The yield on covered interest-earning assets for first quarter 2012 declined from first quarter 2011, which included adjustments in accretible yield based on actual cash realized in excess of estimates upon final settlement of certain covered loans.

#### Noninterest Income

A summary of noninterest income for the quarters ended March 31, 2012 and 2011 is presented in the following table.

Table 3  
Noninterest Income Analysis  
(Dollar amounts in thousands)

|  | Quarters Ended |           | % Change |
|--|----------------|-----------|----------|
|  | 2012           | 2011      |          |
| Service charges on deposit accounts          | \$ 8,660       | \$ 8,144  | 6.3      |
| Wealth management fees                       | 5,392          | 5,053     | 6.7      |
| Other service charges, commissions, and fees | 3,520          | 3,977     | (11.5)   |
| Card-based fees (1)                          | 5,020          | 4,529     | 10.8     |
| Total fee-based revenues                     | 22,592         | 21,703    | 4.1      |
| BOLI income (2)                              | 248            | 252       | (1.6)    |
| Other income (3)                             | 1,135          | 978       | 16.1     |
| Total operating revenues                     | 23,975         | 22,933    | 4.5      |
| Net trading gains (4)                        | 1,401          | 744       | 88.3     |
| Net (losses) gains on securities sales (5)   | (206)          | 540       | N/M      |
| Securities impairment losses (5)             | (737)          | -         | N/M      |
| Gain on early extinguishment of debt (6)     | 256            | -         | N/M      |
| Total noninterest income                     | \$ 24,689      | \$ 24,217 | 1.9      |

N/M – Not meaningful.

- (1) Card-based fees consist of debit and credit card interchange fees charged for processing transactions as well as various fees charged on both customer and non-customer automated teller machine (“ATM”) and point-of-sale transactions processed through the ATM and point-of-sale networks.
- (2) BOLI income represents benefit payments received and the CSV of the policies, net of premiums paid. The change in CSV is attributed to earnings or losses credited to the policies based on investments made by the insurer. For a further discussion of our investment in BOLI, see Note 1 to the Consolidated Financial Statements of our 2011 10-K.

- (3) Other income consists of various items, including safe deposit box rentals, miscellaneous recoveries, and gains on the sales of various assets.
- (4) Net trading gains result from changes in the fair value of trading securities. Our trading securities 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. Net trading gains are substantially offset by an adjustment to salaries and wages expense.
- (5) For a discussion of these items, see the "Investment Portfolio Management" section of this Item 2.
- (6) The gain on early extinguishment of debt relates to the retirement of approximately \$21 million in trust preferred junior subordinated debentures.

Total noninterest income increased 1.9% for first quarter 2012 compared to first quarter 2011. The growth reflects increases in several categories of operating revenues, which were partially offset by net securities losses for first quarter 2012 compared to net securities gains for first quarter 2011.

Fee-based revenues for first quarter 2012 rose 4.1% compared to first quarter 2011 as a result of market-driven price increases that were effective in second quarter 2011 and contributed to growth in service charges, commissions, and fees and card-based fees. The increase in service charges on deposit accounts was partially offset by a decline in the number of occurrences of non-sufficient funds fees.

The first quarter 2012 increase in wealth management fees compared to the same period in 2011 was driven by higher levels of assets under management and custody, a one-time court-approved estate fee, and greater transaction volumes. Assets under management and custody grew over \$80 million from March 31, 2011 to March 31, 2012 driven by sales generated through increased staffing levels and improved market performance.

A decline in merchant fees resulting from lower processing volumes by certain larger merchants drove the decrease in other service charges, commissions, and fees from first quarter 2011 to first quarter 2012. There is a corresponding decline in merchant card expense in the table that follows.



## Noninterest Expense

The following table presents the components of noninterest expense for the quarters ended March 31, 2012 and 2011.

Table 4  
Noninterest Expense Analysis  
(Dollar amounts in thousands)

|   | Quarters Ended<br>March 31, |           | %<br>Change |
|---|-----------------------------|-----------|-------------|
|   | 2012                        | 2011      |             |
| Compensation expense:                   |                             |           |             |
| Salaries and wages (1)                  | \$ 27,257                   | \$ 25,665 | 6.2         |
| Employee benefits (1)                   | 6,793                       | 7,153     | (5.0)       |
| Total compensation expense              | 34,050                      | 32,818    | 3.8         |
| Net OREO expense:                       |                             |           |             |
| Write-downs of OREO                     | 690                         | 1,112     | (37.9)      |
| Net (gains) losses on sales of OREO (2) | (387)                       | 1,115     | N/M         |
| Net OREO operating expense (3)          | 1,561                       | 1,704     | (8.4)       |
| Total OREO expense                      | 1,864                       | 3,931     | (52.6)      |
| Professional services:                  |                             |           |             |
| Loan remediation costs                  | 2,788                       | 2,848     | (2.1)       |
| Other professional services (1)         | 2,841                       | 2,271     | 25.1        |
| Total professional services             | 5,629                       | 5,119     | 10.0        |
| Net occupancy expense                   | 6,205                       | 6,784     | (8.5)       |
| Equipment expense                       | 2,126                       | 2,319     | (8.3)       |
| Technology and related costs            | 2,858                       | 2,623     | 9.0         |
| FDIC insurance premiums                 | 1,719                       | 2,725     | (36.9)      |
| Advertising and promotions              | 870                         | 1,079     | (19.4)      |
| Merchant card expense                   | 1,796                       | 2,088     | (14.0)      |
| Other expenses                          | 5,496                       | 5,932     | (7.3)       |
| Total noninterest expense               | \$ 62,613                   | \$ 65,418 | (4.3)       |
| Full-time equivalent employees          | 1,757                       | 1,845     | (4.8)       |
| Efficiency ratio (4)                    | 64.62%                      | 62.70%    |             |

N/M – Not meaningful.

- (1) In first quarter 2012, the Company recorded a \$315,000 charge for severance costs related to an organizational realignment. The charge included \$258,000 in salaries and wages, \$26,000 in retirement and other employee benefits, and \$31,000 in other professional services.
- (2) For a discussion of sales of OREO properties, refer to the “Non-performing assets” section of this Item 2.
- (3) Net OREO operating expense consists of real estate taxes, commissions paid on sales, insurance, and maintenance, net of any rental income.
- (4) The efficiency ratio expresses noninterest expense, excluding OREO expense, as a percentage of tax-equivalent net interest income plus total fees and other income.

Total noninterest expense for first quarter 2012 declined 4.3% from first quarter 2011.

Salaries and wages in first quarter 2012 were higher than first quarter 2011 due to annual merit increases and higher expense related to an increase in the obligations to participants in deferred compensation plans resulting from changes in the fair value of trading securities held on behalf of plan participants. Excluding this year-over-year fair value increase (which is largely offset by an increase in noninterest income described above), salaries and wages would have increased 3.3% from first quarter 2011. The variance in employee benefits for this period primarily resulted from lower pension and profit sharing expense.

OREO expenses for first quarter 2012 declined 52.6% from first quarter 2011 due to lower OREO write-downs in addition to gains realized on the sale of OREO properties in first quarter 2012 compared to losses realized for first quarter 2011.

Other professional services for first quarter 2012 included higher personnel recruitment expense compared to first quarter 2011 as well as certain non-recurring items. Occupancy expense benefited from a mild winter season as lower snow removal and utility costs were incurred in first quarter 2012 compared to first quarter 2011. FDIC premiums decreased compared to first quarter 2011 primarily due to a change in regulatory requirements for calculating the premium.

#### Income Taxes

Our provision for income taxes includes both federal and state income tax expense. An analysis of the provision for income taxes is detailed in the following table.

Table 5  
Income Tax Expense (Benefit) Analysis  
(Dollar amounts in thousands)

|  | Quarters Ended |          | % Change |
|--|----------------|----------|----------|
|  | 2012           | 2011     |          |
| Income before income tax expense (benefit) | \$ 9,048       | \$ 9,953 | (9.1)    |
| Income tax expense (benefit):              |                |          |          |
| Federal income tax expense                 | \$ 845         | \$ 910   | (7.1)    |
| State income tax expense (benefit)         | 311            | (1,001)  | N/M      |
| Total income tax expense (benefit)         | \$ 1,156       | \$ (91)  | N/M      |
| Effective income tax rate                  | 12.8%          | (0.9%)   |          |

N/M – Not meaningful.

Federal income tax expense 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 and state income taxes. State income tax expense (benefit) and the related effective tax rate are influenced by the amount of state tax-exempt income in relation to pre-tax income and state tax rules relating to consolidated/combined reporting and sourcing of income and expense.

Income tax expense was \$1.2 million for first quarter 2012 compared to an income tax benefit of \$91,000 for first quarter 2011. This increase was due primarily to a \$1.6 million state income tax benefit recorded in first quarter 2011 related to an increase in deferred tax assets resulting from an increase in the Illinois corporate tax rate from 7.3% to 9.5% effective January 1, 2011.

Our accounting policies underlying the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Notes 1 and 14 to the Consolidated Financial Statements of our 2011 10-K.

#### FINANCIAL CONDITION

##### Investment Portfolio Management

Securities that we have the positive intent and ability to hold until maturity are classified as securities held-to-maturity and are accounted for using historical cost, adjusted for amortization of premiums and accretion of discounts. Trading securities are carried at fair value with changes in fair value included in other noninterest income. Our trading

securities consist of securities held in a rabbi trust for our nonqualified deferred compensation plan and are not considered part of the traditional investment portfolio. All other securities are classified as securities available-for-sale and are carried at fair value.

We manage our investment portfolio to maximize the return on invested funds within acceptable risk guidelines, to meet pledging and liquidity requirements, and to adjust balance sheet interest rate sensitivity to mitigate the impact of changes in interest rates on net interest income.

From time to time, we adjust the size and composition of our securities portfolio based on a number of factors, including expected loan growth, anticipated changes in collateralized public funds on account, the interest rate environment, and the related value of various segments of the securities markets. The following table provides a valuation summary of our investment portfolio.

Table 6  
Investment Portfolio Valuation Summary  
(Dollar amounts in thousands)

|                           | March 31, 2012 |                           |                |                           | December 31, 2011 |                           |                |                           |
|---------------------------|----------------|---------------------------|----------------|---------------------------|-------------------|---------------------------|----------------|---------------------------|
|                           | Fair Value     | Unrealized Gains (Losses) | Amortized Cost | % of Total Amortized Cost | Fair Value        | Unrealized Gains (Losses) | Amortized Cost | % of Total Amortized Cost |
| <b>Available-for-Sale</b> |                |                           |                |                           |                   |                           |                |                           |
| U.S. agency securities    | \$ 5,011       | \$ (18)                   | \$ 5,029       | 0.4                       | \$ 5,035          | \$ (25)                   | \$ 5,060       | 0.5                       |
| CMOs                      | 507,546        | 2,885                     | 504,661        | 40.8                      | 384,104           | 276                       | 383,828        | 35.7                      |
| Other MBSs                | 136,001        | 5,738                     | 130,263        | 10.5                      | 87,691            | 5,709                     | 81,982         | 7.7                       |
| Municipal securities      | 488,003        | 25,018                    | 462,985        | 37.4                      | 490,071           | 25,789                    | 464,282        | 43.2                      |
| CDOs                      | 13,685         | (34,353)                  | 48,038         | 3.9                       | 13,394            | (35,365)                  | 48,759         | 4.5                       |
| Corporate debt securities | 30,733         | 3,194                     | 27,539         | 2.2                       | 30,014            | 2,503                     | 27,511         | 2.6                       |
| Equity securities         | 2,996          | 773                       | 2,223          | 0.2                       | 2,697             | 508                       | 2,189          | 0.2                       |
| Total available-for-sale  | 1,183,975      | 3,237                     | 1,180,738      | 95.4                      | 1,013,006         | (605)                     | 1,013,611      | 94.4                      |
| <b>Held-to-Maturity</b>   |                |                           |                |                           |                   |                           |                |                           |
| Municipal securities      | 59,364         | 3,045                     | 56,319         | 4.6                       | 61,477            | 1,019                     | 60,458         | 5.6                       |
| Total securities          | \$ 1,243,339   | \$ 6,282                  | \$ 1,237,057   | 100.0                     | \$ 1,074,483      | \$ 414                    | \$ 1,074,069   | 100.0                     |

|                           | March 31, 2012         |                  |                       | December 31, 2011      |                  |                       |
|---------------------------|------------------------|------------------|-----------------------|------------------------|------------------|-----------------------|
|                           | Effective Duration (1) | Average Life (2) | Yield to Maturity (3) | Effective Duration (1) | Average Life (2) | Yield to Maturity (3) |
| <b>Available-for-Sale</b> |                        |                  |                       |                        |                  |                       |
| U.S. agency securities    | 0.71%                  | 0.28             | 4.13%                 | 0.85%                  | 0.53             | 4.01%                 |
| CMOs                      | 1.32%                  | 2.48             | 1.32%                 | 0.92%                  | 2.19             | 1.57%                 |
| Other MBSs                | 2.52%                  | 4.08             | 3.24%                 | 1.96%                  | 3.91             | 4.50%                 |
| Municipal securities      | 3.95%                  | 3.56             | 6.08%                 | 3.84%                  | 3.77             | 6.13%                 |
| CDOs                      | 0.25%                  | 8.52             | 0.00%                 | 0.25%                  | 8.57             | 0.00%                 |
| Other securities          | 5.98%                  | 10.12            | 6.43%                 | 6.07%                  | 10.29            | 6.45%                 |
| Total available-for-sale  | 2.55%                  | 3.49             | 3.49%                 | 2.45%                  | 3.57             | 3.98%                 |
| <b>Held-to-Maturity</b>   |                        |                  |                       |                        |                  |                       |
| Municipal securities      | 4.78%                  | 7.46             | 5.98%                 | 5.31%                  | 9.33             | 5.91%                 |
| Total securities          | 2.65%                  | 3.68             | 3.60%                 | 2.61%                  | 3.90             | 4.08%                 |

- (1) The effective duration of the securities portfolio represents the estimated percentage change in the fair value of the securities portfolio given a 100 basis point increase or decrease in the level of interest rates. This measure is used as a gauge of the portfolio's price volatility at a single point in time and is not intended to be a precise predictor of future fair values since those values will be influenced by a number of factors.
- (2) Average life is presented in years and represents the weighted-average time to receive all future cash flows using the dollar amount of principal paydowns, including estimated principal prepayments, as the weighting factor.
- (3) Yields on municipal securities are reflected on a tax-equivalent basis, assuming a federal income tax rate of 35%.

#### Portfolio Composition

As of March 31, 2012, our securities portfolio totaled \$1.2 billion, an increase of 15.7% compared to December 31, 2011 primarily in CMOs and other MBSs. In first quarter 2012, deposits acquired in a fourth quarter 2011 transaction that had previously been held in short-term investments were redeployed into these types of securities. Approximately 96% of our \$1.2 billion available-for-sale portfolio was comprised of U.S. agency securities, municipal securities, CMOs, and other

MBSs as of March 31, 2012. The remainder consisted of seven CDOs with a fair value of \$13.7 million and miscellaneous other securities totaling \$33.7 million.

Investments in municipal securities comprised 41.2%, or \$488.0 million, of the total available-for-sale securities portfolio at March 31, 2012, and the majority is general obligations of local municipalities. Our municipal securities portfolio has historically experienced very low default rates and provided a predictable cash flow. Available-for-sale municipal securities declined less than one percent from \$490.1 million at December 31, 2011.

The average life and effective duration of our available-for-sale securities portfolio are relatively stable as of March 31, 2012 compared to December 31, 2011 as interest rates have been largely unchanged.

#### Securities Sales

Net securities losses were \$943,000 for first quarter 2012, which included a loss of \$247,000 on Visa stock, gains of \$41,000 from the sale of \$2.7 million in municipal securities, and an OTTI charge of \$737,000 on a single CDO.

Net securities gains were \$540,000 for first quarter 2011 resulting from the sale of \$44.2 million in CMOs and municipal securities.

#### Unrealized Gains and Losses

Unrealized gains and losses on securities available-for-sale represent the difference between the aggregate cost and fair value of the portfolio and are reported, on an after-tax basis, as a separate component of stockholders' equity in accumulated other comprehensive loss and presented in the Consolidated Statements of Comprehensive Income. This balance sheet component will fluctuate as current market interest rates and conditions change and affect the aggregate fair value of the portfolio. Net unrealized gains at March 31, 2012 were \$3.2 million compared to net unrealized losses of \$605,000 at December 31, 2011.

CMOs and other MBSs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. We do not believe any individual unrealized loss on these types of securities as of March 31, 2012 represents OTTI since the unrealized losses associated with these securities are not believed to be attributable to credit quality, but rather to changes in interest rates and temporary market movements.

As of March 31, 2012, gross unrealized gains in the available-for-sale municipal securities portfolio totaled \$25.3 million, and gross unrealized losses were \$279,000, resulting in a net unrealized gain of \$25.0 million compared to a net unrealized gain of \$25.8 million as of December 31, 2011. Substantially all of these securities carry investment grade ratings with the majority of them supported by the general revenues of the issuing governmental entity and supported by third-party bond insurance or other types of credit enhancement. We do not believe the unrealized loss on any of these securities represents an OTTI.

Our investments in CDOs are supported by the credit of the underlying banks and insurance companies. The unrealized loss on these securities decreased \$1.0 million since December 31, 2011. The unrealized loss reflects the difference between amortized cost and fair value that we determined did not relate to credit and reflects the market's unfavorable bias toward these investments. We do not believe the unrealized losses on the CDOs as of March 31, 2012 represent OTTI. We currently have no evidence that would suggest further reductions in net cash flows on these investments from what has already been recognized. In addition, we do not intend to sell the CDOs with unrealized losses, and we do not believe it is more likely than not that we will be required to sell them before recovery of their amortized cost bases, which may be at maturity. Our estimation of fair values for the CDOs was based on discounted cash flow analyses as described in Note 12 of "Notes to the Condensed Consolidated Financial Statements," in Item 1 of

this Form 10-Q.

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## LOAN PORTFOLIO AND CREDIT QUALITY

## Portfolio Composition

Our loan portfolio is comprised of both corporate and consumer loans with corporate loans representing 87.1% of total loans outstanding at March 31, 2012. The corporate loan component is comprised of commercial and industrial, agricultural, and commercial real estate lending categories. Consistent with our emphasis on relationship banking, the majority of our loans are made to our core, multi-relationship customers.

Table 7  
Loan Portfolio  
(Dollar amounts in thousands)

|                                      | March 31,<br>2012 | % of<br>Total | December 31,<br>2011 | % of<br>Total | Annualized<br>% Change |
|--------------------------------------|-------------------|---------------|----------------------|---------------|------------------------|
| Commercial and industrial            | \$ 1,496,966      | 29.2          | \$ 1,458,446         | 28.7          | 10.6                   |
| Agricultural                         | 237,686           | 4.6           | 243,776              | 4.8           | (10.0)                 |
| Commercial real estate:              |                   |               |                      |               |                        |
| Office                               | 480,288           | 9.4           | 444,368              | 8.7           | 32.3                   |
| Retail                               | 371,258           | 7.2           | 334,034              | 6.6           | 44.6                   |
| Industrial                           | 515,353           | 10.0          | 520,680              | 10.2          | (4.1)                  |
| Multi-family                         | 301,356           | 5.9           | 288,336              | 5.7           | 18.1                   |
| Residential construction             | 99,768            | 1.9           | 105,836              | 2.1           | (22.9)                 |
| Commercial construction              | 142,307           | 2.8           | 144,909              | 2.8           | (7.2)                  |
| Other commercial real estate         |                   |               |                      |               |                        |
| (1)                                  | 829,005           | 16.1          | 888,146              | 17.4          | (26.6)                 |
| Total commercial real estate         | 2,739,335         | 53.3          | 2,726,309            | 53.5          | 1.9                    |
| Total corporate loans                | 4,473,987         | 87.1          | 4,428,531            | 87.0          | 4.1                    |
| Home equity                          | 406,367           | 7.9           | 416,194              | 8.2           | (9.4)                  |
| 1-4 family mortgages                 | 217,729           | 4.2           | 201,099              | 4.0           | 33.1                   |
| Installment loans                    | 39,245            | 0.8           | 42,289               | 0.8           | (28.8)                 |
| Total consumer loans                 | 663,341           | 12.9          | 659,582              | 13.0          | 2.3                    |
| Total loans, excluding covered loans | 5,137,328         | 100.0         | 5,088,113            | 100.0         | 3.9                    |
| Covered loans (2)                    | 251,376           |               | 260,502              |               | (14.0)                 |
| Total loans                          | \$ 5,388,704      |               | \$ 5,348,615         |               | 3.0                    |

(1) Approximately \$50 million of certain other commercial real estate loans as of December 31, 2011 were reclassified into other loan categories as of March 31, 2012, primarily office and retail commercial real estate.

(2) For a detailed discussion of our covered loans and the related accounting policy for covered loans, refer to Notes 1 and 5 of "Notes to the Condensed Consolidated Financial Statements" in Item 1 of this Form 10-Q.

Total loans, including covered loans, of \$5.4 billion as of March 31, 2012 were up \$40.1 million, a 3.0% annualized increase, from December 31, 2011.

Excluding covered loans, total loans grew \$49.2 million, or 3.9% annualized, from December 31, 2011 to March 31, 2012. We experienced over 10% annualized growth in commercial and industrial loans during this period. Continued

efforts to reduce lending exposure to less favorable real estate categories contributed to a 14% annualized decline in the construction portfolios.

#### Commercial, Industrial, and Agricultural Loans

Commercial, industrial, and agricultural loans represent 33.8% of loans, excluding covered loans, and totaled \$1.7 billion at March 31, 2012, an increase of \$32.4 million, or 1.9%, from December 31, 2011. Our commercial and industrial loans are a diverse group of loans to middle market businesses generally located in the Chicago area with purposes that range from supporting seasonal working capital needs to term financing of equipment. The underwriting for these loans is primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower.

Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may incorporate a personal guarantee.

#### Commercial Real Estate Loans

Commercial real estate loans represent 53.3% of loans, excluding covered loans, and totaled \$2.7 billion at March 31, 2012, an increase of \$13.0 million from December 31, 2011. A variety of properties serve as collateral for our commercial real estate loans, which subjects this portfolio to varying degrees of credit risk. Nearly half of our commercial real estate loans consist of loans for industrial buildings, office buildings, and retail shopping centers. Other types of commercial real estate loans include construction loans for single-family and multi-family dwellings, residential projects, and commercial projects and loans for various types of other commercial properties, such as land for future commercial development, multi-unit residential mortgages, warehouses and storage facilities, and service stations.

Included as part of our commercial real estate portfolio are loans secured by owner-occupied real estate, which tend to exhibit lower credit risk than non-owner occupied properties. These loans are viewed primarily as cash flow loans (similar to commercial and industrial loans) and secondarily as loans secured by real estate, which is reflected in the underwriting standards. At March 31, 2012, owner occupied commercial real estate loans were \$1.0 billion, or almost 50%, of the commercial real estate portfolio, excluding multi-family and construction loans.

The following table presents commercial real estate loans by owner-occupied or investor status and product type.

Table 8  
Commercial Real Estate Loans  
(Dollar amounts in thousands)

|   | March 31, 2012 |              |              | December 31, 2011 |              |             |
|---|----------------|--------------|--------------|-------------------|--------------|-------------|
|   | Owner Occupied | Investor     | Total        | Owner Occupied    | Investor     | Total       |
| Office, retail, and industrial:   |                |              |              |                   |              |             |
| Office  | \$ 177,067     | \$ 303,221   | \$ 480,288   | \$146,818         | \$ 297,550   | \$ 444,368  |
| Retail  | 123,661        | 247,597      | 371,258      | 89,831            | 244,203      | 334,034     |
| Industrial  | 289,058        | 226,295      | 515,353      | 298,887           | 221,793      | 520,680     |
| Total office, retail, and industrial  | 589,786        | 777,113      | 1,366,899    | 535,536           | 763,546      | 1,299,082   |
| Multi-family  | -              | 301,356      | 301,356      | -                 | 288,336      | 288,336     |
| Residential construction  | -              | 99,768       | 99,768       | -                 | 105,836      | 105,836     |
| Commercial construction   | -              | 142,307      | 142,307      | -                 | 144,909      | 144,909     |
| Other commercial real estate:   |                |              |              |                   |              |             |
| Rental properties (1)   | 32,030         | 101,240      | 133,270      | 31,417            | 95,668       | 127,085     |
| Service stations and truck stops  | 102,719        | 19,258       | 121,977      | 102,870           | 26,061       | 128,931     |
| Warehouses and storage  | 86,053         | 39,556       | 125,609      | 89,293            | 40,198       | 129,491     |
| Hotels  | -              | 71,757       | 71,757       | -                 | 73,889       | 73,889      |
| Restaurants   | 67,367         | 18,053       | 85,420       | 59,460            | 19,407       | 78,867      |
| Medical   | 19,555         | 834          | 20,389       | 19,808            | 1,051        | 20,859      |
| Automobile dealers  | 30,212         | 4,158        | 34,370       | 31,588            | 4,189        | 35,777      |
| Mobile home parks   | -              | 29,967       | 29,967       | -                 | 30,071       | 30,071      |
| Recreational  | 36,048         | 7,906        | 43,954       | 26,826            | 7,882        | 34,708      |
| Religious   | 24,417         | 174          | 24,591       | 23,919            | 178          | 24,097      |
| Multi-use properties  | 13,929         | 60,427       | 74,356       | 59,068            | 96,517       | 155,585     |
| Other   | 24,719         | 38,626       | 63,345       | 8,802             | 39,984       | 48,786      |
| Total other commercial real estate  | 437,049        | 391,956      | 829,005      | 453,051           | 435,095      | 888,146     |
| Total commercial real estate  | \$ 1,026,835   | \$ 1,712,500 | \$ 2,739,335 | \$988,587         | \$ 1,737,722 | \$2,726,309 |
| Commercial real estate loans, excluding multi-family and construction loans | \$ 1,026,835   | \$ 1,169,069 | \$ 2,195,904 | \$988,587         | \$ 1,198,641 | \$2,187,228 |
| Percent of total (2)  | 46.8%          | 53.2%        |              | 45.2%             | 54.8%        |             |

- (1)The owner occupied rental properties primarily represent home-based businesses.
- (2)The percent reported does not include multi-family or construction loans since the owner-occupied classification does not apply to these categories.

## Non-performing Assets

The following table presents our loan portfolio by performing and non-performing status.

Table 9  
Loan Portfolio by Performing/Non-Performing Status  
(Dollar amounts in thousands)

|                                      | Total<br>Loans | Performing   | Past Due               |                     | Non-accrual | TDRs<br>(still<br>accruing<br>interest) |
|--------------------------------------|----------------|--------------|------------------------|---------------------|-------------|---|
|                                      |                |              | 30-89 Days<br>Past Due | 90 Days<br>Past Due |             |   |
| As of March 31, 2012                 |                |              |                        |                     |             |   |
| Commercial and industrial            | \$ 1,496,966   | \$ 1,431,711 | \$ 6,054               | \$ 3,525            | \$ 55,158   | \$ 518                                  |
| Agricultural                         | 237,686        | 236,252      | 159                    | 393                 | 882         | -                                       |
| Commercial real estate:              |                |              |                        |                     |             |   |
| Office                               | 480,288        | 468,525      | 1,110                  | 250                 | 10,403      | -                                       |
| Retail                               | 371,258        | 364,924      | 612                    | 261                 | 5,241       | 220                                     |
| Industrial                           | 515,353        | 494,562      | 1,214                  | 390                 | 19,187      | -                                       |
| Multi-family                         | 301,356        | 290,379      | 1,362                  | -                   | 9,615       | -                                       |
| Residential construction             | 99,768         | 77,016       | 1,648                  | -                   | 21,104      | -                                       |
| Commercial construction              | 142,307        | 121,510      | 500                    | -                   | 20,297      | -                                       |
| Other commercial real estate         | 829,005        | 780,034      | 4,871                  | 963                 | 43,137      | -                                       |
| Total commercial real estate         | 2,739,335      | 2,596,950    | 11,317                 | 1,864               | 128,984     | 220                                     |
| Total corporate loans                | 4,473,987      | 4,264,913    | 17,530                 | 5,782               | 185,024     | 738                                     |
| Home equity                          | 406,367        | 392,930      | 2,631                  | 1,596               | 8,851       | 359                                     |
| 1-4 family mortgages                 | 217,729        | 210,091      | 747                    | 264                 | 5,648       | 979                                     |
| Installment loans                    | 39,245         | 38,858       | 333                    | 32                  | 22          | -                                       |
| Total consumer loans                 | 663,341        | 641,879      | 3,711                  | 1,892               | 14,521      | 1,338                                   |
| Total loans, excluding covered loans | 5,137,328      | 4,906,792    | 21,241                 | 7,674               | 199,545     | 2,076                                   |
| Covered loans                        | 251,376        | 189,900      | 8,387                  | 33,825              | 19,264      | -                                       |
| Total loans                          | \$ 5,388,704   | \$ 5,096,692 | \$ 29,628              | \$ 41,499           | \$ 218,809  | \$ 2,076                                |
| As of December 31, 2011              |                |              |                        |                     |             |   |
| Commercial and industrial            | \$ 1,458,446   | \$ 1,397,569 | \$ 10,283              | \$ 4,991            | \$ 44,152   | \$ 1,451                                |
| Agricultural                         | 243,776        | 242,727      | 30                     | -                   | 1,019       | -                                       |
| Commercial real estate:              |                |              |                        |                     |             |   |
| Office                               | 444,368        | 436,881      | -                      | -                   | 7,487       | -                                       |
| Retail                               | 334,034        | 326,922      | 395                    | 52                  | 4,923       | 1,742                                   |

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|                       |              |              |           |           |            |           |
|-----------------------|--------------|--------------|-----------|-----------|------------|-----------|
| Industrial            | 520,680      | 501,674      | 385       | 988       | 17,633     | -         |
| Multi-family          | 288,336      | 270,138      | 604       | -         | 6,487      | 11,107    |
| Residential           |              |              |           |           |            |           |
| construction          | 105,836      | 87,482       | 278       | -         | 18,076     | -         |
| Commercial            |              |              |           |           |            |           |
| construction          | 144,909      | 121,562      | -         | -         | 23,347     | -         |
| Other commercial      |              |              |           |           |            |           |
| real estate           | 888,146      | 829,492      | 5,273     | 1,707     | 51,447     | 227       |
| Total commercial      |              |              |           |           |            |           |
| real estate           | 2,726,309    | 2,574,151    | 6,935     | 2,747     | 129,400    | 13,076    |
| Total corporate loans | 4,428,531    | 4,214,447    | 17,248    | 7,738     | 174,571    | 14,527    |
| Home equity           | 416,194      | 400,570      | 5,986     | 1,138     | 7,407      | 1,093     |
| 1-4 family mortgages  | 201,099      | 190,052      | 3,636     | -         | 5,322      | 2,089     |
| Installment loans     | 42,289       | 41,133       | 625       | 351       | 25         | 155       |
| Total consumer loans  | 659,582      | 631,755      | 10,247    | 1,489     | 12,754     | 3,337     |
| Total loans,          |              |              |           |           |            |           |
| excluding covered     |              |              |           |           |            |           |
| loans                 | 5,088,113    | 4,846,202    | 27,495    | 9,227     | 187,325    | 17,864    |
| Covered loans         | 260,502      | 193,044      | 4,232     | 43,347    | 19,879     | -         |
| Total loans           | \$ 5,348,615 | \$ 5,039,246 | \$ 31,727 | \$ 52,574 | \$ 207,204 | \$ 17,864 |

The following table provides a comparison of our non-performing assets and past due loans to prior periods.

Table 10  
Non-Performing Assets and Past Due Loans  
(Dollar amounts in thousands)

|   | 2012       |             | 2011         |            |            |
|---|------------|-------------|--------------|------------|------------|
|   | March 31   | December 31 | September 30 | June 30    | March 31   |
| Non-performing assets, excluding covered loans and covered OREO |            |             |              |            |            |
| Non-accrual loans   | \$ 199,545 | \$ 187,325  | \$ 171,189   | \$ 177,495 | \$ 186,563 |
| 90 days or more past due loans                                  | 7,674      | 9,227       | 6,008        | 6,502      | 5,231      |
| Total non-performing loans                                      | 207,219    | 196,552     | 177,197      | 183,997    | 191,794    |
| TDRs (still accruing interest)                                  | 2,076      | 17,864      | 7,033        | 14,529     | 14,120     |
| Other real estate owned   | 35,276     | 33,975      | 23,863       | 24,407     | 33,863     |
| Total non-performing assets                                     | \$ 244,571 | \$ 248,391  | \$ 208,093   | \$ 222,933 | \$ 239,777 |
| 30-89 days past due loans                                       | \$ 21,241  | \$ 27,495   | \$ 34,061    | \$ 30,424  | \$ 28,927  |
| Non-accrual loans to total loans                                | 3.88%      | 3.68%       | 3.35%        | 3.47%      | 3.66%      |
| Non-performing loans to total loans                             | 4.03%      | 3.86%       | 3.47%        | 3.60%      | 3.76%      |
| Non-performing assets to loans plus OREO                        | 4.73%      | 4.85%       | 4.06%        | 4.34%      | 4.67%      |
| Covered loans and covered OREO (1)                              |            |             |              |            |            |
| Non-accrual loans   | \$ 19,264  | \$ 19,879   | \$ 15,573    | \$ 3,588   | \$ -       |
| 90 days or more past due loans                                  | 33,825     | 43,347      | 56,834       | 68,324     | 88,605     |
| Total non-performing loans                                      | 53,089     | 63,226      | 72,407       | 71,912     | 88,605     |
| TDRs (still accruing interest)                                  | -          | -           | -            | -          | -          |
| Other real estate owned   | 16,990     | 23,455      | 21,594       | 14,583     | 21,543     |
| Total non-performing assets                                     | \$ 70,079  | \$ 86,681   | \$ 94,001    | \$ 86,495  | \$ 110,148 |
| 30-89 days past due loans                                       | \$ 8,387   | \$ 4,232    | \$ 11,070    | \$ 26,180  | \$ 10,399  |
| Non-performing assets, including covered loans and covered OREO |            |             |              |            |            |
| Non-accrual loans   | \$ 218,809 | \$ 207,204  | \$ 186,762   | \$ 181,083 | \$ 186,563 |
| 90 days or more past due loans                                  | 41,499     | 52,574      | 62,842       | 74,826     | 93,836     |
| Total non-performing loans                                      | 260,308    | 259,778     | 249,604      | 255,909    | 280,399    |
| TDRs (still accruing interest)                                  | 2,076      | 17,864      | 7,033        | 14,529     | 14,120     |
| Other real estate owned   | 52,266     | 57,430      | 45,457       | 38,990     | 55,406     |
|   | \$ 314,650 | \$ 335,072  | \$ 302,094   | \$ 309,428 | \$ 349,925 |



|  |    |        |    |        |    |        |    |        |    |        |
|--|----|--------|----|--------|----|--------|----|--------|----|--------|
| Total non-performing assets              |    |        |    |        |    |        |    |        |    |        |
| 30-89 days past due loans                | \$ | 29,628 | \$ | 31,727 | \$ | 45,131 | \$ | 56,604 | \$ | 39,326 |
| Non-accrual loans to total loans         |    | 4.06%  |    | 3.87%  |    | 3.46%  |    | 3.34%  |    | 3.43%  |
| Non-performing loans to total loans      |    | 4.83%  |    | 4.86%  |    | 4.63%  |    | 4.71%  |    | 5.15%  |
| Non-performing assets to loans plus OREO |    | 5.78%  |    | 6.20%  |    | 5.55%  |    | 5.66%  |    | 6.36%  |

(1)For a discussion of covered loans and covered OREO, refer to Note 5 of “Notes to Condensed Consolidated Financial Statements” in Item 1 of this Form 10-Q.

Non-performing covered loans and covered OREO were recorded at their estimated fair values at the time of acquisition. These assets are covered by FDIC Agreements that substantially mitigate the risk of loss. Past due covered loans in the table above are past due based on contractual terms but continue to perform in accordance with our expectations of cash flows. Covered loans are generally 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, and interest income will not be recognized until the timing and amount of the future cash flows can be reasonably estimated.

Non-performing assets, excluding covered loans and covered OREO, were \$244.6 million at March 31, 2012, decreasing \$3.8 million, or 1.5%, from December 31, 2011. The reduction was substantially due to remediation activities, charge-offs, the

return of \$16.0 million in TDRs to performing status, and \$8.5 million in OREO dispositions, largely offset by the downgrade of performing loans. For further discussion of OREO dispositions, refer to the “OREO” section of this Item 2.

Loans 30 to 89 days past due, excluding covered loans, of \$21.2 million at March 31, 2012 declined \$6.3 million, or 22.7%, from December 31, 2011. This represents the lowest level of 30 to 89 days past due loans since 2003.

Management continues to pursue the remediation of non-performing assets in accordance with the previously-established disposition strategies. As management works to dispose of non-performing assets, our efforts could be impacted by a number of factors, including but not limited to, the pace and timing of the overall recovery of the economy, illiquidity in the real estate market, and higher levels of foreclosed real estate coming into the market.

#### Non-accrual Loans

Non-accrual loans, excluding covered loans, grew from \$187.3 million at December 31, 2011 to \$199.5 million at March 31, 2012 as the amount of loans downgraded from performing to non-accrual status exceeded sales, payments, charge-offs, and transfers to OREO during the first quarter of 2012.

Included in loans downgraded to non-accrual for first quarter 2012 were nine loans totaling approximately \$25 million, the majority of which were included in potential problem loans as of December 31, 2011. Refer to the “Potential Problem Loans” section of this Item 2 for additional discussion.

A discussion of our accounting policies for non-accrual loans is contained in Note 1 of “Notes to Consolidated Financial Statements” in Item 1 of this Form 10-Q.

## Construction Portfolio

Construction loans totaled \$242.1 million at March 31, 2012, a reduction of \$8.7 million, or 3.5%, from December 31, 2011. This portfolio represents loans to developers and home builders and is particularly susceptible to declining real estate values. Non-performing construction loans totaled \$41.4 million at March 31, 2012, which is consistent with the December 31, 2011 level.

The following table provides details on the nature of these construction portfolios.

Table 11  
Construction Loans by Underlying Collateral, Excluding Covered Loans  
(Dollar amounts in thousands)

|  | Residential<br>Construction |                        | Commercial<br>Construction |                        | Combined   |                        |
|--|-----------------------------|------------------------|----------------------------|------------------------|------------|------------------------|
|  | Amount                      | Percent<br>of<br>Total | Amount                     | Percent<br>of<br>Total | Amount     | Percent<br>of<br>Total |
| As of March 31, 2012                             |                             |                        |                            |                        |            |                        |
| Raw Land   | \$ 25,103                   | 25.2                   | \$ 47,003                  | 33.0                   | \$ 72,106  | 29.8                   |
| Developed Land                                   | 49,356                      | 49.4                   | 52,967                     | 37.2                   | 102,323    | 42.3                   |
| Construction                                     | 10,329                      | 10.4                   | 13,709                     | 9.6                    | 24,038     | 9.9                    |
| Substantially completed structures               | 13,863                      | 13.9                   | 27,984                     | 19.7                   | 41,847     | 17.3                   |
| Mixed and other                                  | 1,117                       | 1.1                    | 644                        | 0.5                    | 1,761      | 0.7                    |
| Total  | \$ 99,768                   | 100.0                  | \$ 142,307                 | 100.0                  | \$ 242,075 | 100.0                  |
| Weighted-average maturity (in years)             | 0.72                        |                        | 0.86                       |                        | 0.80       |                        |
| Non-performing loans                             | \$ 21,104                   |                        | \$ 20,297                  |                        | \$ 41,401  |                        |
| Non-performing loans as a percent of total loans | 21.2%                       |                        | 14.3%                      |                        | 17.1%      |                        |
| As of December 31, 2011                          |                             |                        |                            |                        |            |                        |
| Raw land   | \$ 24,981                   | 23.6                   | \$ 42,768                  | 29.5                   | \$ 67,749  | 27.0                   |
| Developed land                                   | 55,501                      | 52.4                   | 57,949                     | 40.0                   | 113,450    | 45.3                   |
| Construction                                     | 12,133                      | 11.5                   | 14,415                     | 9.9                    | 26,548     | 10.6                   |
| Substantially completed structures               | 12,195                      | 11.5                   | 27,221                     | 18.8                   | 39,416     | 15.7                   |
| Mixed and other                                  | 1,026                       | 1.0                    | 2,556                      | 1.8                    | 3,582      | 1.4                    |
| Total  | \$ 105,836                  | 100.0                  | \$ 144,909                 | 100.0                  | \$ 250,745 | 100.0                  |
| Weighted-average maturity (in years)             | 0.63                        |                        | 0.74                       |                        | 0.69       |                        |
| Non-performing loans                             | \$ 18,076                   |                        | \$ 23,347                  |                        | \$ 41,423  |                        |
| Non-performing loans as a percent of total loans | 17.1%                       |                        | 16.1%                      |                        | 16.5%      |                        |

Six credits primarily in the raw land category represent 67.3% of the \$41.4 million in non-performing construction loans as of March 31, 2012, with the largest single loan totaling \$14.0 million. Life-to-date charge-offs on these six credits totaled \$6.5 million and valuation allowances related to these loans totaled \$2.8 million as of March 31, 2012.



## TDRs

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. A discussion of our accounting policies for TDRs is contained in Note 1 of “Notes to Consolidated Financial Statements” in Item 1 of this Form 10-Q.

Table 12  
TDRs by Type  
(Dollar amounts in thousands)

|                                     | March 31, 2012  |           | December 31, 2011 |           | March 31, 2011  |           |
|-------------------------------------|-----------------|-----------|-------------------|-----------|-----------------|-----------|
|                                     | Number of Loans | Amount    | Number of Loans   | Amount    | Number of Loans | Amount    |
| Commercial and industrial           | 15              | \$ 1,758  | 20                | \$ 2,348  | 28              | \$ 22,569 |
| Agricultural                        | -               | -         | -                 | -         | -               | -         |
| Commercial real estate:             |                 |           |                   |           |                 |           |
| Office                              | -               | -         | -                 | -         | -               | -         |
| Retail                              | 1               | 220       | 2                 | 1,742     | -               | -         |
| Industrial                          | -               | -         | -                 | -         | 1               | 1,828     |
| Multi-family                        | 8               | 1,758     | 9                 | 12,865    | 8               | 3,078     |
| Commercial construction             | 1               | 14,006    | 1                 | 14,006    | 4               | 4,539     |
| Other commercial real estate        | 7               | 11,467    | 9                 | 11,644    | 7               | 6,588     |
| Total commercial real estate        |                 |           |                   |           |                 |           |
| loans                               | 17              | 27,451    | 21                | 40,257    | 20              | 16,033    |
| Home equity loans                   | 11              | 768       | 25                | 1,564     | 22              | 1,641     |
| 1-4 family mortgages                | 17              | 2,059     | 26                | 3,382     | 23              | 2,944     |
| Installment loans                   | -               | -         | 1                 | 155       | -               | -         |
| Total consumer loans                | 28              | 2,827     | 52                | 5,101     | 45              | 4,585     |
| Total TDRs                          | 60              | \$ 32,036 | 93                | \$ 47,706 | 93              | \$ 43,187 |
| TDRs, still accruing interest       | 17              | \$ 2,076  | 57                | \$ 17,864 | 53              | \$ 14,120 |
| TDRs included in non-accrual        | 43              | 29,960    | 36                | 29,842    | 40              | 29,067    |
| Total TDRs                          | 60              | \$ 32,036 | 93                | \$ 47,706 | 93              | \$ 43,187 |
| Year-to-date charge-offs on TDRs    |                 | \$ -      |                   | \$ 8,890  |                 | \$ 63     |
| Valuation allowance related to TDRs |                 | \$ 916    |                   | \$ 94     |                 | \$ 519    |

At March 31, 2012, we had TDRs totaling \$32.0 million, a decrease of \$15.7 million from December 31, 2011. The March 31, 2012 total includes \$2.1 million in loans that were restructured at market terms and are accruing interest compared to \$17.9 million as of December 31, 2011. During first quarter 2012, we returned \$16.0 million in accruing TDRs to performing status since they exhibited a sufficient period of performance under the restructured terms.

We have other TDRs totaling \$30.0 million as of March 31, 2012, which are classified as non-accrual because they are not performing in accordance with their modified terms or there has not yet been sufficient performance under the modified terms. We occasionally restructure loans at other than market rates or terms to enable the borrower to work through financial difficulties for a set period of time.

## Potential Problem Loans

Potential problem loans consist of special mention loans and substandard loans that continue to accrue interest. These loans are performing in accordance with contractual terms, but management has concerns about the ability of the obligor to continue to comply with contractual terms because of the obligor's potential operating or financial difficulties.

Table 13  
Potential Problem Loans  
(Dollar amounts in thousands)

|                               | March 31,<br>2012 | December 31,<br>2011 | March 31,<br>2011 |
|-------------------------------|-------------------|----------------------|-------------------|
| Special mention loans (1)     | \$ 234,055        | \$ 276,577           | \$ 399,477        |
| Substandard loans (2)         | 123,316           | 126,657              | 182,842           |
| Total potential problem loans | \$ 357,371        | \$ 403,234           | \$ 582,319        |

(1) Loans categorized as special mention exhibit potential weaknesses that require the close attention of management, since these potential weaknesses may result in the deterioration of repayment prospects at some future date.

(2) Loans categorized as substandard continue to accrue interest, but exhibit a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt. The loans continue to accrue interest because they are well secured and collection of principal and interest is expected within a reasonable time.

Potential problem loans totaled \$357.4 million as of March 31, 2012, down \$45.9 million, or 11.4%, from December 31, 2011 and down \$224.9 million, or 38.6% from March 31, 2011. The declines from both prior periods reflect management's continuing success in remediating potential problem loans. As of March 31, 2012, 11 borrowers, each having balances greater than \$5 million, comprised approximately 30% of potential problem loans.

## OREO

OREO consists of properties acquired as the result of borrower defaults on loans. A discussion of our accounting policies for non-accrual loans is contained in Note 1 of "Notes to Consolidated Financial Statements" in Item 1 of this Form 10-Q.

Table 14  
OREO Properties by Type  
(Dollar amounts in thousands)

|                          | March 31, 2012          |          | December 31, 2011       |        | March 31, 2011             |          |
|--------------------------|-------------------------|----------|-------------------------|--------|----------------------------|----------|
|                          | Number of<br>Properties | Amount   | Number of<br>Properties | Amount | Number<br>of<br>Properties | Amount   |
| Single family homes      | 13                      | \$ 2,340 | 5                       | \$ 985 | 13                         | \$ 1,336 |
| Land parcels:            |                         |          |                         |        |                            |          |
| Raw land                 | 8                       | 5,047    | 8                       | 8,316  | 5                          | 7,467    |
| Farmland                 | 1                       | 207      | -                       | -      | 3                          | 3,562    |
| Commercial lots          | 16                      | 5,482    | 19                      | 5,944  | 16                         | 7,165    |
| Single-family lots       | 25                      | 6,803    | 25                      | 7,677  | 24                         | 5,659    |
| Total land parcels       | 50                      | 17,539   | 52                      | 21,937 | 48                         | 23,853   |
| Multi-family units       | 6                       | 609      | 4                       | 3,083  | 3                          | 343      |
| Commercial properties    | 21                      | 14,788   | 16                      | 7,970  | 13                         | 8,331    |
| Total OREO,<br>excluding | 90                      | 35,276   | 77                      | 33,975 | 77                         | 33,863   |

|              |     |           |     |           |     |           |  |
|--------------|-----|-----------|-----|-----------|-----|-----------|--|
| covered OREO |     |           |     |           |     |           |  |
| Covered OREO | 44  | 16,990    | 46  | 23,455    | 46  | 21,543    |  |
| Total OREO   |     |           |     |           |     |           |  |
| properties   | 134 | \$ 52,266 | 123 | \$ 57,430 | 123 | \$ 55,406 |  |

OREO, excluding covered OREO, was \$35.3 million at March 31, 2012 compared to \$34.0 million at December 31, 2011 and \$33.9 million at March 31, 2011.



Table 15  
Disposals of OREO Properties  
(Dollar amounts in thousands)

|  | Quarter Ended March 31, 2012 |                 |           | Quarter Ended March 31, 2011 |                 |            |
|--|------------------------------|-----------------|-----------|------------------------------|-----------------|------------|
|  | OREO                         | Covered<br>OREO | Total     | OREO                         | Covered<br>OREO | Total      |
| OREO sales                             |                              |                 |           |                              |                 |            |
| Proceeds from sales                    | \$ 8,830                     | \$ 8,326        | \$ 17,156 | \$ 7,114                     | \$ 1,125        | \$ 8,239   |
| Less: Basis of properties sold         | 8,532                        | 8,237           | 16,769    | 8,210                        | 1,144           | 9,354      |
| Net gains (losses) on sales of<br>OREO | \$ 298                       | \$ 89           | \$ 387    | \$ (1,096)                   | \$ (19)         | \$ (1,115) |
| OREO write-downs                       | \$ 691                       | \$ (1)          | \$ 690    | \$ 1,101                     | \$ 11           | \$ 1,112   |

OREO sales, excluding covered OREO, consisted of 13 properties for the quarter ended March 31, 2012, with the majority classified as raw land and multi-family units.

OREO sales, excluding covered OREO, consisted of 28 properties for the quarter ended March 31, 2011, with the majority classified as farmland; office, retail, and industrial; and 1-4 family.

#### 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 since it requires significant estimates and management judgment, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans, consideration of current economic trends, and other factors.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses depends on 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 of loan risk classifications by regulatory authorities. Management believes that the allowance for credit losses is an appropriate estimate of credit losses inherent in the loan portfolio as of March 31, 2012.

The accounting policies underlying the establishment and maintenance of the allowance for credit losses are discussed in Note 1 of "Notes to Consolidated Financial Statements" in Item 1 of this Form 10-Q.

Table 16  
 Allowance for Credit Losses  
 and Summary of Loan Loss Experience  
 (Dollar amounts in thousands)

|   | Quarters Ended |             |              |            |            |
|---|----------------|-------------|--------------|------------|------------|
|   | 2012           | 2011        |              |            |            |
|   | March 31       | December 31 | September 30 | June 30    | March 31   |
| Change in allowance for credit losses:      |                |             |              |            |            |
| Balance at beginning of quarter             | \$ 121,962     | \$ 131,291  | \$ 139,831   | \$ 145,003 | \$ 145,072 |
| Loans charged-off:                          |                |             |              |            |            |
| Commercial and industrial                   | (8,170)        | (9,451)     | (10,761)     | (6,003)    | (4,965)    |
| Agricultural                                | (20)           | (484)       | (177)        | (900)      | (9)        |
| Office, retail, and industrial              | (2,667)        | (3,798)     | (2,549)      | (647)      | (1,199)    |
| Multi-family                                | (140)          | (5,139)     | (2,244)      | (6,652)    | (549)      |
| Residential construction                    | (683)          | (2,498)     | (2,314)      | (3,661)    | (5,422)    |
| Commercial construction                     | (170)          | (1,673)     | (4,197)      | (185)      | (261)      |
| Other commercial real estate                | (8,184)        | (3,021)     | (4,490)      | (2,484)    | (5,401)    |
| Consumer                                    | (2,152)        | (2,311)     | (1,909)      | (2,767)    | (2,424)    |
| 1-4 family mortgages                        | (226)          | (199)       | (333)        | (341)      | (247)      |
| Total loans charged-off                     | (22,412)       | (28,574)    | (28,974)     | (23,640)   | (20,477)   |
| Recoveries on loans previously charged-off: |                |             |              |            |            |
| Commercial and industrial                   | 646            | 541         | 596          | 418        | 1,837      |
| Agricultural                                | 70             | -           | -            | 101        | -          |
| Office, retail, and industrial              | 2              | 19          | 6            | 38         | 16         |
| Multi-family                                | 131            | 336         | 74           | -          | -          |
| Residential construction                    | 220            | -           | 64           | 2,762      | 4          |
| Commercial construction                     | -              | -           | 82           | 52         | -          |
| Other commercial real estate                | 7              | 19          | 69           | 377        | 43         |
| Consumer                                    | 186            | 112         | 129          | 64         | 107        |
| 1-4 family mortgages                        | 16             | 3           | 13           | 1          | 1          |
| Total recoveries on loans                   | 1,278          | 1,030       | 1,033        | 3,813      | 2,008      |

|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| previously charged-off                           |            |            |            |            |            |
| Net loans charged-off, excluding covered loans   | (21,134)   | (27,544)   | (27,941)   | (19,827)   | (18,469)   |
| Net charge-offs of covered loans                 | (274)      | (3,687)    | (1,024)    | (4,108)    | (1,092)    |
| Net loans charged off                            | (21,408)   | (31,231)   | (28,965)   | (23,935)   | (19,561)   |
| Provision charged to operating expense:          |            |            |            |            |            |
| Provision, excluding provision for covered loans | 17,932     | 18,249     | 18,378     | 14,655     | 18,400     |
| Provision for covered loans                      | 1,387      | 16,139     | 5,271      | 22,356     | 7,501      |
| Less: expected reimbursement from the FDIC       | (1,109)    | (12,486)   | (3,224)    | (18,248)   | (6,409)    |
| Net provision for covered loans                  | 278        | 3,653      | 2,047      | 4,108      | 1,092      |
| Total provision charged to operating expense     | 18,210     | 21,902     | 20,425     | 18,763     | 19,492     |
| Balance at end of quarter                        | \$ 118,764 | \$ 121,962 | \$ 131,291 | \$ 139,831 | \$ 145,003 |
| Allowance for loan losses                        | \$ 116,264 | \$ 119,462 | \$ 128,791 | \$ 137,331 | \$ 142,503 |
| Reserve for unfunded commitments                 | 2,500      | 2,500      | 2,500      | 2,500      | 2,500      |
| Total allowance for credit losses                | \$ 118,764 | \$ 121,962 | \$ 131,291 | \$ 139,831 | \$ 145,003 |

|   | Quarters Ended   |              |              |                 |              |
|---|------------------|--------------|--------------|-----------------|--------------|
|   | 2012<br>March 31 | December 31  | September 30 | 2011<br>June 30 | March 31     |
| Average loans (1)   | \$ 5,089,286     | \$ 5,085,792 | \$ 5,136,130 | \$ 5,108,234    | \$ 5,075,840 |
| Net loans charged-off to average loans (1), annualized        | 1.67%            | 2.15%        | 2.16%        | 1.56%           | 1.48%        |
| Allowance for credit losses at end of period as a percent of: |                  |              |              |                 |              |
| Total loans (1)   | 2.31%            | 2.40%        | 2.57%        | 2.73%           | 2.85%        |
| Non-accrual loans (1)   | 60%              | 65%          | 77%          | 79%             | 78%          |
| Non-performing loans (1)                                      | 57%              | 62%          | 74%          | 76%             | 76%          |
| Average loans, including covered loans                        | \$ 5,345,074     | \$ 5,365,286 | \$ 5,440,354 | \$ 5,443,761    | \$ 5,438,978 |
| Net loans charged-off to average loans, annualized            | 1.61%            | 2.31%        | 2.11%        | 1.76%           | 1.46%        |
| Allowance for credit losses at end of period as a percent of: |                  |              |              |                 |              |
| Total loans   | 2.20%            | 2.28%        | 2.43%        | 2.58%           | 2.66%        |
| Non-accrual loans   | 54%              | 59%          | 70%          | 77%             | 78%          |
| Non-performing loans  | 46%              | 47%          | 53%          | 55%             | 52%          |

(1)Excludes covered loans.

The allowance for credit losses represented 2.31% of total loans outstanding, excluding covered loans, at March 31, 2012 compared to 2.40% at December 31, 2011. The allowance for credit losses declined \$3.2 million from \$122.0 million as of December 31, 2011 to \$118.8 million as of March 31, 2012. During the first quarter of 2012, we saw declines in 30 to 89 days past due loans and potential problem loans, which drove a decrease in our estimate of credit losses inherent in the loan portfolio and the amount of allowance for credit losses deemed appropriate to cover those losses.

Net charge-offs for first quarter 2012 were \$21.4 million, up \$1.8 million, or 9.4%, from first quarter 2011. The elevated level of charge-offs in other commercial real estate loans during first quarter 2012 resulted from the write-down of three credits, including one that was transferred to held-for-sale status and sold in April 2012.

Charge-offs related to covered loans for first quarter 2012 and first quarter 2011 reflect the decline in estimated cash flows of certain acquired loans, net of the reimbursement from the FDIC under the FDIC Agreements. Management re-estimates cash flows periodically, and any declines in estimated cash flows on a present value basis, net of loss share, are reflected as charge-offs in that period. Conversely, any increases in estimated cash flows, net of loss share, are recorded through prospective yield adjustments over the remaining lives of the specific loans. To date, cumulative increases in estimated cash flows exceeded cumulative declines.



## FUNDING AND LIQUIDITY MANAGEMENT

The following table provides a comparison of average funding sources for the quarters ended March 31, 2012, December 31, 2011, and March 31, 2011. We believe that average balances, rather than period-end balances, are more meaningful in analyzing funding sources because of the inherent fluctuations that may occur on a monthly basis within most funding categories.

Table 17  
Funding Sources – Average Balances  
(Dollar amounts in thousands)

|   | Quarters Ended    |                      |                   | First Quarter 2012<br>% Change From |                          |
|---|-------------------|----------------------|-------------------|-------------------------------------|--------------------------|
|   | March 31,<br>2012 | December 31,<br>2011 | March 31,<br>2011 | Fourth<br>Quarter<br>2011           | First<br>Quarter<br>2011 |
| Demand deposits                                       | \$ 1,591,198      | \$ 1,613,221         | \$ 1,342,013      | (1.4)                               | 18.6                     |
| Savings deposits                                      | 995,955           | 952,962              | 901,205           | 4.5                                 | 10.5                     |
| NOW accounts  | 1,051,870         | 1,062,993            | 1,044,280         | (1.0)                               | 0.7                      |
| Money market accounts                                 | 1,184,316         | 1,237,600            | 1,240,439         | (4.3)                               | (4.5)                    |
| Transactional deposits                                | 4,823,339         | 4,866,776            | 4,527,937         | (0.9)                               | 6.5                      |
| Time deposits   | 1,601,518         | 1,669,348            | 1,914,486         | (4.1)                               | (16.3)                   |
| Brokered deposits                                     | 20,408            | 19,647               | 23,404            | 3.9                                 | (12.8)                   |
| Total time deposits                                   | 1,621,926         | 1,688,995            | 1,937,890         | (4.0)                               | (16.3)                   |
| Total deposits  | 6,445,265         | 6,555,771            | 6,465,827         | (1.7)                               | (0.3)                    |
| Repurchase agreements                                 | 91,048            | 87,893               | 148,347           | 3.6                                 | (38.6)                   |
| FHLB advances   | 112,500           | 164,946              | 137,500           | (31.8)                              | (18.2)                   |
| Total borrowed funds                                  | 203,548           | 252,839              | 285,847           | (19.5)                              | (28.8)                   |
| Senior and subordinated debt                          | 248,232           | 187,488              | 137,745           | 32.4                                | 80.2                     |
| Total funding sources                                 | \$ 6,897,045      | \$ 6,996,098         | \$ 6,889,419      | (1.4)                               | 0.1                      |
| Average interest rate paid on<br>borrowed funds       | 1.02%             | 1.05%                | 0.96%             |                                     |                          |
| Weighted-average maturity of<br>FHLB<br>advances      | 29.6<br>months    | 19.3<br>months       | 24.6<br>months    |                                     |                          |
| Weighted-average interest rate of<br>FHLB<br>advances | 1.71%             | 2.13%                | 1.95%             |                                     |                          |

Average funding sources for first quarter 2012 declined \$99.1 million, or 1.4%, from fourth quarter 2011 due to a \$160.0 million, or 2.3%, seasonal decline in deposits and borrowed funds, partially offset by a \$60.7 million, or 32.4%, increase in senior and subordinated debt.

Average funding sources grew \$7.6 million from first quarter 2011 to first quarter 2012. Growth of \$249.2 million, or 18.6%, in demand deposits offset a decline in interest-bearing liabilities, which resulted in a more favorable product mix.

The growth in average senior and subordinated debt for first quarter 2012 compared to both prior periods reflects the issuance of \$115.0 million in senior debt in fourth quarter 2011, which was used to partially fund the redemption of the Series B preferred stock issued to the Treasury.

Table 18  
Borrowed Funds  
(Dollar amounts in thousands)

|   | March 31, 2012 |          | March 31, 2011 |          |
|---|----------------|----------|----------------|----------|
|   | Amount         | Rate (%) | Amount         | Rate (%) |
| At period-end:  |                |          |                |          |
| Securities sold under agreements to repurchase                      | \$ 89,655      | 0.01     | \$ 135,842     | 0.02     |
| FHLB advances   | 112,500        | 1.71     | 137,500        | 1.95     |
| Total borrowed funds  | \$ 202,155     | 0.96     | \$ 273,342     | 0.99     |
| Average for the year-to-date period:                                |                |          |                |          |
| Securities sold under agreements to repurchase                      | \$ 91,048      | 0.01     | \$ 148,347     | 0.03     |
| FHLB advances   | 112,000        | 1.83     | 137,500        | 1.98     |
| Total borrowed funds  | \$ 203,048     | 1.02     | \$ 285,847     | 0.96     |
| Maximum amount outstanding at the end of any day during the period: |                |          |                |          |
| Securities sold under agreements to repurchase                      | \$ 103,591     |          | \$ 174,810     |          |
| FHLB advances   | 112,500        |          | 137,500        |          |

Securities sold under repurchase agreements declined from March 31, 2011 to March 31, 2012 as certain municipal customers shifted balances into demand deposits, which are insured by the FDIC.

Average borrowed funds totaled \$203.0 million for first quarter 2012, decreasing \$82.8 million, or 29.0%, from first quarter 2011. The increase in demand deposits during this period reduced our reliance on these higher-costing funds.

Securities sold under agreements to repurchase, federal funds purchased, and term auction facilities generally mature within 1 to 90 days from the transaction date.

#### MANAGEMENT OF CAPITAL

A strong capital structure is crucial in maintaining investor confidence, accessing capital markets, and enabling us to take advantage of future profitable growth opportunities. Our capital policy requires that the Company and the Bank maintain capital ratios in excess of the minimum regulatory guidelines. It serves as an internal discipline in analyzing business risks and internal growth opportunities and sets targeted levels of return on equity. Under regulatory capital adequacy guidelines, the Company and the Bank are subject to various capital requirements set and administered by the federal banking agencies. These requirements specify minimum capital ratios, defined as Tier 1 and total capital as a percentage of assets and off-balance sheet items that were weighted according to broad risk categories and a leverage ratio calculated as Tier 1 capital as a percentage of adjusted average assets. We manage our capital ratios for both the Company and the Bank to consistently maintain such measurements in excess of the Federal Reserve's minimum levels considered to be "well-capitalized," which is the highest capital category established.



The following table presents our consolidated measures of capital as of the dates presented and the capital guidelines established by the Federal Reserve to be categorized as “well-capitalized.” All regulatory mandated ratios for characterization as “well-capitalized” were exceeded as of March 31, 2012 and December 31, 2011.

Table 19  
Capital Measurements  
(Dollar amounts in thousands)

|  | March 31,<br>2012 | December<br>31,<br>2011 | Regulatory<br>Minimum<br>For<br>“Well-<br>Capitalized” | Excess Over<br>Required Minimums<br>at March 31, 2012 |            |
|--|-------------------|-------------------------|--|---|------------|
| Regulatory capital ratios:   |                   |                         |  |   |            |
| Total capital to risk-weighted assets  | 13.47%            | 13.68%                  | 10.00%   | 35%   | \$ 217,431 |
| Tier 1 capital to risk-weighted assets   | 11.41%            | 11.61%                  | 6.00%  | 90%   | \$ 338,648 |
| Tier 1 leverage to average assets  | 9.38%             | 9.28%                   | 5.00%  | 88%   | \$ 333,429 |
| Tier 1 common capital to risk-weighted assets (1)  | 10.38%            | 10.26%                  | N/A (2)  | N/A<br>(2)  | N/A (2)    |
| Tangible common equity ratios:   |                   |                         |  |   |            |
| Tangible common equity to tangible assets  | 8.95%             | 8.83%                   | N/A (2)  | N/A<br>(2)  | N/A (2)    |
| Tangible common equity, excluding other accumulated comprehensive loss, to tangible assets | 9.10%             | 9.00%                   | N/A (2)  | N/A<br>(2)  | N/A (2)    |
| Tangible common equity to risk-weighted assets   | 11.01%            | 10.88%                  | N/A (2)  | N/A<br>(2)  | N/A (2)    |
| Regulatory capital ratios, Bank only (3):  |                   |                         |  |   |            |
| Total capital to risk-weighted assets  | 14.58%            | 14.37%                  | 10.00%   | 46%   | \$ 281,135 |
| Tier 1 capital to risk-weighted assets   | 13.32%            | 13.11%                  | 6.00%  | 122%  | \$ 449,401 |
| Tier 1 leverage to average assets  | 10.82%            | 10.37%                  | 5.00%  | 116%  | \$ 439,937 |

(1)Excludes the impact of trust-preferred securities.

(2)Ratio is not subject to formal Federal Reserve regulatory guidance.

(3)Ratio presented pertains to our wholly owned banking subsidiary, First Midwest Bank.

All other ratios presented in the table above are capital adequacy metrics used and relied on by investors and industry analysts; however, they are non-GAAP financial measures for U.S. Securities and Exchange Commission purposes. These non-GAAP measures are valuable indicators of a financial institution’s capital strength since they eliminate intangible assets from stockholders’ equity and retain the effect of accumulated other comprehensive loss in stockholders’ equity. Reconciliations of the components of those ratios to GAAP are presented in the table below.

In first quarter 2012, we redeemed and retired approximately \$21 million of 6.95% trust preferred junior subordinated debentures (“TRUPs”) at a discount of 2.25%. This transaction resulted in the recognition of a pre-tax gain of \$256,000. Although the TRUPs were included as a component of Tier 1 capital, we elected to retire them given the low interest rate environment.

The Board of Directors reviews the Company's capital plan each quarter, considering the current and expected operating environment as well as an evaluation of various capital alternatives.

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Table 20  
Reconciliation of Capital Components to Regulatory Requirements and GAAP  
(Dollar amounts in thousands)

|  | March 31,<br>2012 | December 31,<br>2011 |
|--|-------------------|----------------------|
| <b>Reconciliation of Capital Components to Regulatory Requirements</b>                     |                   |                      |
| Total regulatory capital, as defined in federal regulations                                | \$ 843,798        | \$ 853,961           |
| Tier 1 capital, as defined in federal regulations  | \$ 714,468        | \$ 724,863           |
| Trust preferred securities included in Tier 1 capital                                      | (64,265)          | (84,730)             |
| Tier 1 common capital  | \$ 650,203        | \$ 640,133           |
| Risk-weighted assets, as defined in federal regulations                                    | \$ 6,263,673      | \$ 6,241,191         |
| Average assets, as defined in federal regulations  | 7,620,777         | 7,813,637            |
| Total capital to risk-weighted assets  | 13.47%            | 13.68%               |
| Tier 1 capital to risk-weighted assets   | 11.41%            | 11.61%               |
| Tier 1 common capital to risk-weighted assets  | 10.38%            | 10.26%               |
| Tier 1 leverage to average assets  | 9.38%             | 9.28%                |
| <b>Reconciliation of Capital Components to GAAP</b>  |                   |                      |
| Total stockholder's equity   | \$ 972,701        | \$ 962,587           |
| Goodwill and other intangible assets   | (282,815)         | (283,650)            |
| Tangible common equity   | 689,886           | 678,937              |
| Accumulated other comprehensive loss   | 10,919            | 13,276               |
| Tangible common equity, excluding accumulated other comprehensive loss                     | \$ 700,805        | \$ 692,213           |
| Total assets   | \$ 7,988,002      | \$ 7,973,594         |
| Goodwill and other intangible assets   | (282,815)         | (283,650)            |
| Tangible assets  | \$ 7,705,187      | \$ 7,689,944         |
| Tangible common equity to tangible assets  | 8.95%             | 8.83%                |
| Tangible common equity, excluding accumulated other comprehensive loss, to tangible assets | 9.10%             | 9.00%                |
| Tangible common equity to risk-weighted assets   | 11.01%            | 10.88%               |

## CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with GAAP and are consistent with predominant practices in the financial services industry. Critical accounting policies are those policies that management believes are the most important to our financial position and results of operations. Application of critical accounting policies requires management to make estimates, assumptions, and judgments based on information available as of the date of the financial statements that affect the amounts reported in the financial statements and accompanying notes. Future changes in information may affect these estimates, assumptions, and judgments, which, in turn, may affect amounts reported in the financial statements.

We have numerous accounting policies, of which the most significant are presented in Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements of our 2011 10-K. These policies, along with the disclosures presented in "Notes to Condensed Consolidated Financial Statements" in Item 1 of this Form 10-Q, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management determined that our accounting policies with

respect to the allowance for credit losses, evaluation of impairment of securities, and income taxes are the accounting areas requiring subjective or complex judgments that are most important to our financial position and results of operations, and, therefore, are considered to be critical accounting policies, as discussed in our 2011 10-K.

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

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. Interest rate risk is our primary market risk and is the result of repricing, basis, and option risk. A description and analysis of our interest rate risk management policies is included in Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” contained in our 2011 10-K.

We seek to achieve consistent growth in net interest income and net income while managing volatility that arises from shifts in interest rates. The Bank’s Asset and Liability Committee (“ALCO”) oversees financial risk management by developing programs to measure and manage interest rate risks within authorized limits set by the Bank’s Board of Directors. ALCO also approves the Bank’s asset and liability management policies, oversees the formulation and implementation of strategies to improve balance sheet positioning and earnings, and reviews the Bank’s interest rate sensitivity position. Management uses net interest income and economic value of equity simulation modeling tools to analyze and capture short-term and long-term interest rate exposures.

**Net Interest Income Sensitivity**

The analysis of net interest income sensitivities assesses the magnitude of changes in net interest income resulting from changes in interest rates over a 12-month horizon using multiple rate scenarios. These scenarios include, but are not limited to, a most likely forecast, a flat to inverted or unchanged rate environment, a gradual increase and decrease of 200 basis points that occur in equal steps over a six-month time horizon, and immediate increases and decreases of 200 and 300 basis points.

This simulation analysis is based on actual cash flows and repricing characteristics for balance sheet and off-balance sheet instruments and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. This simulation analysis includes management’s projections for activity levels in each of the product lines we offer. The analysis also incorporates assumptions based on the historical behavior of deposit rates and balances in relation to interest rates. Because these assumptions are inherently uncertain, the simulation analysis cannot definitively measure net interest income or predict the impact of the fluctuation in interest rates on net interest income. Actual results may differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

We monitor and manage interest rate risk within approved policy limits. Our current interest rate risk policy limits are determined by measuring the change in net interest income over a 12-month horizon.

**Analysis of Net Interest Income Sensitivity  
(Dollar amounts in thousands)**

|                           | Gradual Change in Rates (1) |           |             | Immediate Change in Rates |          |           |
|---------------------------|-----------------------------|-----------|-------------|---------------------------|----------|-----------|
|                           | -200                        | +200      | -200        | +200                      | -300 (2) | +300      |
| <b>March 31, 2012:</b>    |                             |           |             |                           |          |           |
| Dollar change             | \$ (10,019)                 | \$ 6,101  | \$ (13,212) | \$ 10,121                 | \$ N/M   | \$ 22,132 |
| Percent change            | -3.7%                       | +2.3%     | -4.9%       | 3.7%                      | N/M      | +8.2%     |
| <b>December 31, 2011:</b> |                             |           |             |                           |          |           |
| Dollar change             | \$ (8,457)                  | \$ 13,392 | \$ (13,983) | \$ 19,209                 | \$ N/M   | \$ 36,576 |
| Percent change            | -3.1%                       | +4.9%     | -5.2%       | +7.1%                     | N/M      | +13.5%    |

(1)

Reflects an assumed uniform change in interest rates across all terms that occurs in equal steps over a six-month horizon.

(2)N/M – Due to the low level of interest rates as of March 31, 2012 and December 31, 2011, management deemed an assumed 300 basis point drop in interest rates not meaningful.

Overall, in rising interest rate scenarios, interest rate risk volatility is less positive at March 31, 2012 than at December 31, 2011 and in declining interest rate scenarios, interest rate risk volatility is more negative at March 31, 2012 compared to December 31, 2011. In first quarter 2012, deposits acquired in a fourth quarter 2011 transaction that had previously been held in short-term investments were redeployed into securities, specifically CMOs and other MBSs. This reinvestment drove the change in interest rate sensitivity from December 31, 2011 to March 31, 2012. While the negative exposure to net interest income is higher compared to December 31, 2011, the risk of significant rate declines is small, since interest rates remain at low levels.

## Economic Value of Equity

In addition to the simulation analysis, management uses an economic value of equity sensitivity technique to understand the risk in both shorter-term and longer-term positions and to study the impact of longer-term cash flows on earnings and capital. In determining the economic value of equity, we discount present values of expected cash flows on all assets, liabilities, and off-balance sheet contracts under different interest rate scenarios. The discounted present value of all cash flows represents our economic value of equity. Economic value of equity does not represent the true fair value of asset, liability, or derivative positions because certain factors are not considered, such as credit risk, liquidity risk, and the impact of future changes to the balance sheet.

Analysis of Economic Value of Equity  
(Dollar amounts in thousands)

|                    | -200         | Immediate Change in Rates |          | +300       |
|--------------------|--------------|---------------------------|----------|------------|
|                    |              | +200                      | -300 (1) |            |
| March 31, 2012:    |              |                           |          |            |
| Dollar change      | \$ (128,864) | \$ 112,320                | \$ N/M   | \$ 164,447 |
| Percent change     | -10.3%       | +9.0%                     | N/M      | +13.2%     |
| December 31, 2011: |              |                           |          |            |
| Dollar change      | \$ (168,853) | \$ 148,369                | \$ N/M   | \$ 221,525 |
| Percent change     | -13.3%       | +11.7%                    | N/M      | +17.4%     |

(1)N/M- Due to the low level of interest rates as of March 31, 2012 and December 31, 2011, management deemed an assumed 300 basis point drop in interest rates not meaningful.

As of March 31, 2012, the estimated sensitivity of the economic value of equity to changes in rising interest rates is less positive compared to December 31, 2011, and the estimated sensitivity to falling rates is less negative compared to December 31, 2011. The change from December 31, 2011 is due to the investment of interest-bearing cash into securities described in the previous section. In addition, during first quarter 2012, approximately \$21 million of TRUPS were redeemed and retired. The decrease in these long-term liabilities reduced exposure to rising rates.

#### ITEM 4. CONTROLS AND PROCEDURES

At the end of the period covered by this report, (the "Evaluation Date"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and its Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that as of the Evaluation Date, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. There were no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The nature of the business of the Bank and the Company's other subsidiaries ordinarily results in a certain amount of claims, litigation, investigations, and legal and administrative cases and proceedings, all of which are considered incidental to the normal conduct of business. In managing such matters, management considers the merits and feasibility of all options and strategies available to the Company, including litigation prosecution, arbitration, insurance coverage, and settlement. Generally, if the Company determines it has meritorious defenses to a matter, it vigorously defends itself.

In August 2011, 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 complaint was amended in February 2012, and the Bank filed a motion to dismiss the lawsuit in May 2012, which is pending. The lawsuit is based on the Bank's practices



pursuant to debit card transactions, and alleges, among other things, that these practices 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.

Currently, there are certain other legal proceedings pending against the Company and its subsidiaries in the ordinary course of business. While the outcome of any legal proceeding is inherently uncertain, based on information currently available, the Company's management believes that any liabilities arising from pending legal matters are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

#### ITEM 1A. RISK FACTORS

The Company provided a discussion of certain risks and uncertainties faced by the Company in its Annual Report on Form 10-K for the year ended December 31, 2011. However, these factors may not be the only risks or uncertainties the Company faces.

Based on currently available information, the Company has not identified any additional material changes in the Company's risk factors as previously disclosed, except as discussed above.

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes the Company's monthly common stock purchases during first quarter 2012. The Board approved a stock repurchase program on November 27, 2007. Up to 2.5 million shares of the Company's common stock may be repurchased, and the total remaining authorization under the program was 2,494,747 shares as of December 31, 2011. The repurchase program has no set expiration or termination date.

##### Issuer Purchases of Equity Securities (Number of shares in thousands)

|                                | Total<br>Number of<br>Shares<br>Purchased<br>(1) | Average<br>Price<br>Paid per<br>Share | Total<br>Number<br>of Shares<br>Purchased<br>as<br>Part of a<br>Publicly<br>Announced<br>Plan or<br>Program | Maximum<br>Number of<br>Shares that<br>May Yet<br>Be<br>Purchased<br>Under the<br>Plan or<br>Program |
|--------------------------------|--|---------------------------------------|---|--|
| January 1 – January 31, 2012   | 892  | \$ 10.55                              | -   | 2,494,747  |
| February 1 – February 29, 2012 | 60,916   | 11.78                                 | -   | 2,494,747  |
| March 1 – March 31, 2012       | -  | -                                     | -   | 2,494,747  |
| Total                          | 61,808   | \$ 11.77                              | -   |  |

(1)

Consists of shares acquired pursuant to the Company's share-based compensation plans and not the Company's repurchase program approved by its Board on November 27, 2007. Under the terms of these plans, the Company accepts shares of common stock from option holders if they elect to surrender previously owned shares upon exercise to cover the exercise price of the stock options or, in the case of restricted shares of common stock, the withholding of shares to satisfy tax withholding obligations associated with the vesting of restricted shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| Exhibit<br>Number | Description of Documents  | Sequential<br>Page # |
|-------------------|---|----------------------|
| 3.1               | Restated Certificate of Incorporation of First Midwest Bancorp, Inc. is herein incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.   |                      |
| 3.2               | Restated By-laws of First Midwest Bancorp, Inc. is herein incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2012.  |                      |
| 11                | Statement re: <u>Computation of Per Share Earnings</u> - The computation of basic and diluted earnings per common share is included in <u>Note 7</u> of the Company's Notes to Condensed Consolidated Financial Statements included in "ITEM 1. FINANCIAL STATEMENTS" of this document. |                      |
| 15                | Acknowledgment of Independent Registered Public Accounting Firm.  |                      |
| 31.1              | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |                      |
| 31.2              | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |                      |
| 32.1 (1)          | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |                      |
| 32.2 (1)          | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |                      |
| 99                | Report of Independent Registered Public Accounting Firm.  |                      |
| 101 (1)           | Interactive Data File.  |                      |

(1) Furnished, not filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

First Midwest Bancorp, Inc.

/s/ PAUL F. CLEMENS  
 Paul F. Clemens  
 Executive Vice President, Chief Financial Officer,

and Principal Accounting Officer\*

Date: May 10, 2012

\* Duly authorized to sign on behalf of the registrant.

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