FIRST MIDWEST BANCORP INC
Form 10-K
March 01, 2011
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-K

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year-ended **December 31, 2010**

or

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

**Commission File Number 0-10967**

# FIRST MIDWEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

| **Delaware** | **36-3161078** |
|---|---|
| (State or other jurisdiction of<br>incorporation or organization) | (IRS Employer Identification No.) |

**One Pierce Place, Suite 1500**

**Itasca, Illinois 60143-9768**

(Address of principal executive offices) (zip code)

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Common Stock, $.01 Par Value** | The Nasdaq Stock Market |
| **Preferred Share Purchase Rights** | The Nasdaq Stock Market |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ].

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].

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

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

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

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

The aggregate market value of the registrant s outstanding voting common stock held by non-affiliates on June 30, 2010, determined using a per share closing price on that date of $12.16, as quoted on The Nasdaq Stock Market, was $834,080,362.

As of March 1, 2011, there were 74,543,280 shares of common stock, $.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant s Proxy Statement for the 2011 Annual Stockholders Meeting - Part III

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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 Management s Discussion and Analysis of Financial Condition & Results of Operations and in the Notes to Consolidated Financial Statements.

| | |
|---|---|
| 2011 Proxy Statement: | the Company s definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be held on May 18, 2011 |
| Act: | Bank Holding Company Act of 1956, as amended |
| ALCO: | Asset Liability Committee |
| AMT: | alternative minimum tax under the Internal Revenue Code of 1986, as amended |
| ARRA: | American Recovery and Reinvestment Act of 2009 |
| ATM: | automated teller machine |
| Bank: | First Midwest Bank (one of the Company s two wholly owned subsidiaries) |
| BIA: | Banking on Illinois Act |
| Board: | the Board of Directors of First Midwest Bancorp, Inc. |
| BOLI: | bank owned life insurance |
| BSA: | Bank Secrecy Act |
| CAMELS rating: | a bank s capital level and supervisory rating |
| Catalyst: | Catalyst Asset Holdings, LLC (one of the Company s two wholly owned subsidiaries) |
| CDOs: | collateralized debt obligations |
| CFPB: | Consumer Financial Protection Bureau |
| 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 is traded on the Nasdaq Stock Market under the symbol FMBI |
| Company: | First Midwest Bancorp, Inc. |
| Council: | Financial Stability Oversight Council created by the Dodd-Frank Act |
| CPP: | Capital Purchase Program enacted under TARP and the EESA |
| CRA: | Community Reinvestment Act of 1977 |
| CSV: | cash surrender value |
| DIF: | the FDIC s Deposit Insurance Fund |
| Directors Plan: | Nonemployees Directors Stock Plan |
| EESA: | Emergency Economic Stabilization Act of 2008 |
| Dodd-Frank Act: | the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act |
| EPS: | earnings per share |
| Fannie Mae: | Federal National Mortgage Association |
| FASB: | Financial Accounting Standards Board |
| FDIA: | Federal Deposit Insurance Act |
| FDIC: | Federal Deposit Insurance Corporation |
| FDIC Agreements: | Purchase and Assumption Agreements and Loss Share Agreements between the Bank and the FDIC |
| Federal Reserve: | Board of Governors of the Federal Reserve system |
| FHC: | a financial holding company |
| FHLB: | Federal Home Loan Bank |
| FICO: | credit score created by Fair Isaac Corporation |
| FinCEN: | Financial Crimes Enforcement Network |
| First Midwest: | First Midwest Bancorp, Inc. |
| FMCT I: | First Midwest Capital Trust I |
| Freddie Mac: | Federal Home Loan Mortgage Corporation |

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| | |
|---|---|
| FSP: | U.S. Department of the Treasury s Financial Stability Plan |
| GAAP: | U.S. generally accepted accounting principles |
| GLB Act: | Gramm-Leach-Bliley Act of 1999 |
| HAMP: | U.S. Department of the Treasury Home Affordable Modification Program |
| IBA: | Illinois Banking Act |
| IDFPR: | Illinois Department of Financial and Professional Regulation |
| LIBOR: | London Interbank Offered Rate |
| NOL: | net operating loss |
| 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 |
| Parent Company: | First Midwest Bancorp, Inc. on an unconsolidated basis |
| PSLRA: | Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995 |
| Restoration: | Restoration Asset Management, LLC (a wholly owned subsidiary of Catalyst) |
| Riegle-Neal: | Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 |
| S&P 500: | Standard & Poor s 500 Stock Index |
| S&P SmallCap 600 Banks: | Standard & Poor s SmallCap 600 Banks Index |
| Sarbanes-Oxley: | Sarbanes-Oxley Act of 2002 |
| SEC: | U.S. Securities and Exchange Commission |
| TARP: | Troubled Asset Relief Program |
| TLGP: | Temporary Liquidity Guarantee Program |
| Treasury: | U.S. Department of the Treasury |
| VIE: | variable interest entity |

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## INTRODUCTION

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

## AVAILABLE INFORMATION

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

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

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

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

## CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES

## LITIGATION REFORM ACT OF 1995

We include or incorporate by reference in this Annual Report on Form 10-K, 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

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some cases, you can identify these statements by forward-looking words such as may, might, will, should, expect, plan, anticipate estimate, predict, probable, potential, or continue, and the negative of these terms and other comparable terminology. We caution you n 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 Item 1A of Part I and Item 7 of Part II of this Annual Report on Form 10-K, including the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as our subsequent periodic and current reports filed with the SEC. However, these risks and uncertainties are not exhaustive. Other sections of this report describe additional factors that could adversely impact our business and financial performance.

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

# PART I

## ITEM 1. BUSINESS

***First Midwest Bancorp, Inc.***

First Midwest Bancorp, Inc. ( First Midwest or the Company ) is a bank holding company incorporated in Delaware in 1982 for the purpose of becoming a holding company registered under the Bank Holding Company Act of 1956, as amended (the Act ). The Company is one of Illinois largest publicly traded banking companies with assets of $8.1 billion as of December 31, 2010 and is headquartered in the Chicago suburb of Itasca, Illinois.

***History***

The Company is the product of the consolidation of over 22 affiliated financial institutions in 1983, followed by several significant acquisitions, including the purchase of SparBank, Incorporated, a $449 million institution in 1997; Heritage Financial Services, Inc., a $1.4 billion institution in 1998; CoVest Bancshares, a $646 million institution in 2003; and Bank Calumet, Inc., a $1.4 billion institution in 2006.

The Company has completed three Federal Deposit Insurance Corporation ( FDIC )-assisted transactions since October, 2009, as follows:

| Institution Acquired | Date Acquired | | Assets of Former Institution |
|---|---|---|---|
| First DuPage Bank ( First DuPage ) | October 23, 2009 | $ | 260 million |
| Peotone Bank and Trust Company ( Peotone ) | April 23, 2010 | $ | 130 million |
| Palos Bank and Trust Company ( Palos ) | August 13, 2010 | $ | 490 million |

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For more information regarding these recent acquisitions, please refer to Note 5 of Notes to Financial Statements in Item 8 of this Form 10-K.

In the normal course of business, the Company may, from time to time, explore potential opportunities to acquire banking institutions. As a matter of policy, the Company generally does not comment on any dialogue or possible acquisitions until a definitive acquisition agreement has been signed.

***Subsidiaries***

First Midwest is responsible for the overall conduct, direction, and performance of its subsidiaries. The Company provides various services to its subsidiaries, establishes Company-wide policies and procedures, and provides other resources as needed, including capital. As of December 31, 2010, the following were the primary subsidiaries of First Midwest:

**First Midwest Bank (the Bank )**

The Bank conducts the majority of the Company s operations. At December 31, 2010, the Bank had $8.0 billion in total assets, $6.6 billion in total deposits, and 100 banking offices primarily in suburban metropolitan Chicago. The Bank employed 1,820 full-time equivalent employees at December 31, 2010.

First Midwest Bank Key Figures

| (Dollar amounts in thousands) | December 31, 2010 |
|---|---|
| Total assets | $ 7,983,225 |
| Total deposits | $ 6,564,112 |
| Banking offices | 100 |
| Full-time equivalent employees | 1,820 |

The Bank operates the following wholly owned subsidiaries:

FMB Investment Corporation, which was dissolved on December 28, 2010, was a Delaware corporation that managed investment securities, principally municipal obligations, and provided corporate management services to its wholly owned subsidiary, FMB Investment Trust, a Maryland business trust. FMB Investment Trust managed many of the real estate loans originated by the Bank. All of the assets of FMB Investment Corporation were transferred to the Bank upon its dissolution.

Calumet Investment Corporation is a Delaware corporation that manages investment securities, principally municipal obligations, and provides corporate management services to its wholly owned subsidiary, Calumet Investments Ltd., a Bermuda corporation. Calumet Investments Ltd. manages investment securities and is largely inactive.

Synergy Property Holdings, LLC, a limited liability company, which manages several of the Bank s other real estate owned ( OREO ) properties.

Five limited liability companies (FDB Berkshire, LLC; FDB Sheridan Terrace, LLC; FDB Curtiss Street, LLC; Hamlin Wilson, LLC; and FDB Properties LLC), each of which holds OREO properties acquired by First DuPage. FDB Sheridan Terrace, LLC; FDB Curtiss Street, LLC; and FDB Properties, LLC were dissolved in early 2011.

LIH Holdings, LLC, a limited liability company, which holds an equity interest in a Section 8 housing venture.

Bankers Title Insurance, LLC was acquired as part of the acquisition of Palos and provides title insurance services to former Palos customers.

Bank Calumet Financial Services, Inc., which was dissolved on July 20, 2010, was an Indiana corporation that was largely inactive.

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**First Midwest Capital Trust I (FMCT I)**

First Midwest Capital Trust I is a Delaware statutory business trust formed in 2003 for the purpose of issuing $125.0 million in trust-preferred securities and lending the proceeds to the Company in return for junior subordinated debentures of the Company. The Company guarantees, on a limited basis, payments of distributions on the trust-preferred securities and payments on redemption of the trust-preferred securities. In 2009, the Company completed an exchange offer, which resulted in the Company retiring $39.3 million of the junior subordinated debentures at a discount of 20% and redeeming the corresponding trust-preferred securities associated therewith.

FMCT I qualifies as a variable interest entity for which the Company is not the primary beneficiary. Consequently its accounts are not consolidated in the Company s financial statements. However, the currently outstanding $87.3 million in trust-preferred securities issued by FMCT I are included in the Tier 1 capital of the Company for regulatory capital purposes. For a further description of FMCT I, refer to Note 11 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K. For a discussion of the potential impact of the provisions of the recently enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) on the Company s ability to continue to include the trust-preferred securities in its Tier 1 capital, see the heading Capital Guidelines appearing later in this section.

**Catalyst Asset Holdings, LLC (Catalyst)**

Catalyst operates in the same offices as the Bank and manages a portion of the Company s non-performing assets. The Company established Catalyst in first quarter 2010. In March 2010, the Company purchased $168.1 million of non-performing assets from the Bank and transferred them to Catalyst in the form of a capital injection. As of December 31, 2010, Catalyst had $93.1 million in non-performing assets. Since the banking subsidiary s financial position and results of operations are consolidated with the Company, this transaction did not change the presentation of these non-performing assets in the consolidated financial statements and did not impact the consolidated Company s financial position, results of operations, or regulatory capital ratios. However, the transaction improved the Bank s asset quality, capital ratios, and liquidity.

Catalyst has one wholly owned subsidiary, Restoration Asset Management, LLC ( Restoration ), a limited liability company, which manages Catalyst s OREO properties. The Bank provides certain administrative and management services to Catalyst and Restoration pursuant to a services agreement. The amounts charged under this services agreement are intended to reflect the actual costs to the Bank for providing such services.

***Market Area***

The Bank s largest service area is the suburban metropolitan Chicago market, which includes the counties surrounding Cook County, Illinois. This area extends from the cities of Zion and Waukegan, Illinois into northwest Indiana, including the cities of Crown Point and St. John, Indiana. The Company s other service areas are in central and western Illinois, which includes the cities of Champaign, Danville, and Galesburg, and eastern Iowa, or Quad-Cities , which includes the cities of Davenport, Bettendorf, Moline, and East Moline. These service areas include a mixture of urban, suburban, and rural markets. The Bank s business of attracting deposits and making loans is primarily conducted within its service areas and may be affected by significant changes in their economies. These service areas contain a diversified mix of industry groups, including manufacturing, health care, pharmaceutical, higher education, wholesale and retail trade, service, and agricultural.

When comparing large national metropolitan areas, the Chicago metropolitan area currently ranks as follows:

Third in the nation with respect to total businesses,
Third in total population,
Twelfth in average household income, and
Twelfth in median income producing assets.

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*Competition*

The banking and financial services industry in the Chicago metropolitan area is highly competitive, and the Company expects it to remain so in the future. Generally, the Bank competes for banking customers and deposits with other local, regional, national, and internet banks and savings and loan associations; personal loan and finance companies and credit unions; and mutual funds and investment brokers. The Company faces intense competition from local and out of state institutions within its service areas.

Competition is based on a number of factors including interest rates charged on loans and paid on deposits; the ability to attract new deposits; the scope and type of banking and financial services offered; the hours during which business can be conducted; the location of bank branches and ATMs; the availability, ease of use, and range of banking services on the internet; the availability of related services; and a variety of additional services such as investment management, fiduciary, and brokerage services.

In providing investment advisory services, the Bank also competes with retail and discount stockbrokers, investment advisors, mutual funds, insurance companies, and other financial institutions for investment management clients. Competition is generally based on the variety of products and services offered to clients and the performance of funds under management and comes from financial service providers both within and outside of the geographic areas in which the Bank maintains offices.

The Company faces intense competition in attracting and retaining qualified employees. Its ability to continue to compete effectively will depend upon its ability to attract new employees and retain and motivate existing employees.

*Our Business*

The Bank offers a variety of traditional financial products and services that are designed to meet the financial needs of the customers and communities it serves. For over 60 years, the Bank has been in the basic business of community banking, namely attracting deposits and making loans, as well as providing wealth management, investment, and retirement planning services. The Company does not engage in any sub-prime lending, nor does it engage in non-commercial banking activities, such as investment banking services.

**Deposit and Retail Services**

The Bank offers a full range of deposit services that are typically available in most commercial banks and financial institutions, including checking accounts, NOW accounts, money market accounts, savings accounts, and time deposits of various types, ranging from shorter-term to longer-term certificates of deposit. The transaction accounts and time deposits are tailored to our primary service area at competitive rates. The Company also offers certain retirement account services, including individual retirement accounts.

**Lending Activities**

The Bank originates commercial and industrial, agricultural, commercial real estate, and consumer loans. Substantially all of the Company s borrowers are residents of the Bank s service areas. The Company s largest category of lending is commercial real estate (including residential construction loans), followed by commercial and industrial. Generally, real estate loans are secured by the land and any improvements to, or developments on, the land. Generally, loan-to-value ratios at time of issuance are 50% for unimproved land and 65% for developed land. The Company s consumer loans consist primarily of home equity loans and lines of credit.

No individual or single group of related accounts is considered material in relation to the assets or deposits of the Bank or in relation to the overall business of the Company. However, 65.8% of our loan portfolio at December 31, 2010 consisted of real estate-related loans, including construction loans, residential mortgage loans, and commercial mortgage loans.

For detailed information regarding the Company s loan portfolio, see the Loan Portfolio and Credit Quality section of Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

**Sources of Funds**

The Bank s ability to maintain affordable funding sources allows the Company to meet the credit needs of its customers and the communities it serves. As of December 31, 2010, deposits were a relatively stable form of funding, and they were the primary source of the Company s funds for lending and other investment purposes. Deposits funded 79.9% of the Company s assets at the end of 2010, with a net loans-to-deposits ratio of 78.3%. Consumer and commercial deposits come from the Company s primary service areas through a broad selection of deposit products. By maintaining core deposits, the Company both controls its funding costs and builds client relationships.

In addition to deposits, the Company obtains funds from the amortization, repayment, and prepayment of loans; the sale or maturity of investment securities; advances from the Federal Home Loan Bank ( FHLB ), brokered repurchase agreements and certificates of deposits, and federal funds purchased; cash flows generated by operations; and proceeds from sales of the Company s common and preferred stock. For detailed information regarding the Company s funding sources, see the Funding and Liquidity Management section of Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

**Investment Activities**

The Bank maintains a sizeable securities portfolio in order to provide the Company with financial stability, asset diversification, income, and collateral for borrowing. The Company administers this securities portfolio in accordance with an investment policy that has been approved and adopted by the Board of Directors of the Bank. The Company s Asset Liability Committee ( ALCO ) implements the investment policy based on the established guidelines within the written policy.

The basic objectives of the Bank s investment activities are to enhance the profitability of the Company by keeping its investable funds fully employed, provide adequate regulatory and operational liquidity, minimize and/or adjust the interest rate risk position of the Company, minimize the Company s exposure to credit risk, and provide collateral for pledging requirements. For detailed information regarding the Company s securities portfolio, see the Investment Portfolio Management section of Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

***Supervision and Regulation***

The Bank is an Illinois state chartered bank and a member of the Board of Governors of the Federal Reserve System ( Federal Reserve ), which has the primary authority to examine and supervise the Bank in coordination with the Illinois Department of Financial and Professional Regulation (the IDFPR ). The Company is a bank holding company and is also subject to the primary regulatory authority of the Federal Reserve. The Company and its subsidiaries are also subject to extensive secondary regulation and supervision by various state and federal governmental regulatory authorities including the FDIC, which oversees insured deposits, and the U.S. Department of the Treasury ( Treasury ), which enforces money laundering and currency transaction regulations. In addition to banking regulations, as a public company, the Company is under the jurisdiction of the U.S. Securities and Exchange Commission ( SEC ) and the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934.

Federal and state laws and regulations generally applicable to financial institutions, such as the Company and its subsidiaries, regulate the scope of business, investments, reserves against deposits, capital levels, the nature and

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amount of collateral for loans, the establishment of branches, mergers, consolidations, dividends, and other things. This supervision and regulation is intended primarily for the protection of the FDIC s deposit insurance fund ( DIF ) and the depositors, rather than the stockholders, of a financial institution.

The following sections describe the significant elements of the material statutes and regulations affecting the Company and its subsidiaries, many of which are the subject of ongoing revision and legislative rulemaking as a result of the government s long-term regulatory reform of the financial markets and the implementation of the Dodd-Frank Act, which is discussed in more detail later in this report. In some cases, the proposals include a radical overhaul of the regulation of financial institutions or limitations on the products they offer.

The final regulations or regulatory policies that are applicable to the Company and its subsidiaries and eventually adopted by the U.S. government may be disruptive to the Company s business and could have a material adverse effect on its business, financial condition, and results of operations. The Company cannot accurately predict the nature or the extent of the effects that any such changes would have on its business and earnings. The following discussions are summaries of the material statutes and regulations affecting the Company and its subsidiaries as currently in effect and are qualified in their entirety by reference to such statutes and regulations.

**Federal Reserve System**

The Federal Reserve System serves as the nation s central bank and is responsible for monetary policy. It consists of a seven member Board of Governors in Washington, D.C. and twelve reserve banks located in major cities throughout the U.S. Through the Federal Reserve Act and the Bank Holding Company Act of 1956, as amended (described below), the Federal Reserve has regulatory and supervisory responsibilities over its member banks, bank holding companies, and Edge Act and agreement corporations. The Federal Reserve also sets margin requirements, which limit the use of credit for purchasing or carrying securities, and develops and administers regulations that implement major federal laws governing consumer credit such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, and the Truth in Savings Act.

**Bank Holding Company Act of 1956, As Amended (the Act )**

Generally, the Act governs the acquisition and control of banks and non-banking companies by bank holding companies and requires bank holding companies to register with the Federal Reserve. The Act requires a bank holding company to file an annual report of its operations and such additional information as the Federal Reserve may require. A bank holding company and its subsidiaries are subject to examination by the Federal Reserve. The Act s principal areas of concern include:

The Federal Reserve s jurisdiction to regulate the terms of certain debt issues of bank holding companies, including the authority to impose reserve requirements.

The acquisition of 5% or more of the voting shares of any bank or bank holding company, which generally requires the prior approval of the Federal Reserve and is subject to applicable federal and state law, including the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ( Riegle-Neal ) for interstate transactions.

Prohibiting (with certain exceptions) a bank holding company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any non-banking company unless the non-banking activities are found by the Federal Reserve to be so closely related to banking as to be a proper incident thereto. Under current regulations of the Federal Reserve, a bank holding company and its non-bank subsidiaries are permitted to engage in such banking-related business ventures as consumer finance, equipment leasing, data processing, mortgage banking, financial and investment advice, securities brokerage services, and other activities.

Acquisition of control (10% of the outstanding shares of any class of voting stock) of a bank or bank holding company without prior notice to certain federal bank regulators.

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**Federal Reserve Act**

Any transactions between the Bank and the Company and their respective subsidiaries are regulated by the Federal Reserve Act, including Sections 23A and 23B. These regulations place restrictions on loans by a bank to an affiliate, asset purchases by a bank from an affiliate, and other transactions between a bank and its affiliates. These regulations limit credit transactions between a bank and its affiliates, prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices, requires arms-length transactions between affiliates, and restricts the types of collateral security permitted in connection with a bank s extension of credit to affiliates. Section 22(h) of the Federal Reserve Act limits how much and on what terms a bank may lend to its insiders and insiders of its affiliates, including executive officers and directors.

Bank holding companies act as a source of financial and managerial strength to their subsidiary banks. Under this policy, the holding company is expected to commit resources to support its bank subsidiary even at times when the holding company may not be in a financial position to provide it. Any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. The Act provides that, in the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to priority of payment.

**Community Reinvestment Act of 1977 (the CRA )**

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practices. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by providing credit to low-income and moderate-income individuals and communities. The applicable federal regulators regularly conduct CRA examinations to assess the performance of financial institutions and assign one of four ratings to the institution s record of meeting the credit needs of its community. During its last examination, the Bank received a rating of outstanding, the highest available.

**Gramm-Leach-Bliley Act of 1999 (the GLB Act )**

The GLB Act allows for banks and certain other financial institutions to enter into combinations that permit a single financial services organization to offer customers a more comprehensive array of financial products and services. Such products and services may include insurance and securities underwriting and agency activities, merchant banking, and insurance company portfolio investment activities. Activities that are complementary to financial activities are also authorized. Under the GLB, the Federal Reserve may not permit a company to form a financial holding company if any of its insured depository institution subsidiaries (i) are not well-capitalized and well managed or (ii) did not receive at least a satisfactory rating in their most recent CRA exam.

Also under the GLB Act, a financial institution may not disclose non-public personal information about a consumer to unaffiliated third parties unless the institution satisfies various disclosure requirements and the consumer has not elected to opt out of the information sharing. Under the GLB Act, a financial institution must provide its customers with a notice of its privacy policies and practices. The Federal Reserve, the FDIC, and other financial regulatory agencies have issued regulations implementing notice requirements and restrictions on a financial institution s ability to disclose non-public personal information about consumers to unaffiliated third parties.

**Bank Secrecy Act and USA PATRIOT Act**

The Bank Secrecy and USA Patriot Acts require financial institutions to develop programs to prevent them from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the Treasury s Office of Financial Crimes Enforcement Network ( FinCEN ). These rules require financial institutions to establish procedures for identifying and verifying the

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identity of customers seeking to open new accounts. Failure to comply with these regulations could result in sanctions and possible fines. In recent years, several banking institutions have received sanctions and some have incurred large fines for non-compliance with these laws and regulations.

**Consumer Financial Protection**

The Bank is subject to a number of regulations intended to protect consumers in various areas such as equal credit opportunity, fair lending, customer privacy, identity theft, and fair credit reporting. For example, deposit activities are subject to such acts as the Federal Truth in Savings Act and the Illinois Consumer Deposit Account Act. Electronic banking activities are subject to federal law, including the Electronic Funds Transfer Act, and state laws. Trust activities of the Bank are subject to the Illinois Corporate Fiduciaries Act. Loans made by the Bank are subject to applicable provisions of the Illinois Interest Act, the Federal Truth in Lending Act, and the Illinois Financial Services Development Act. Significant consumer regulations include:

*Overdraft Regulation.* The Federal Reserve has amended its regulation regarding electronic fund transfers effective July 1, 2010. The new regulation requires consumers to opt in, or affirmatively consent, to the institution s overdraft service for ATM and one-time debit card transactions before overdraft fees may be assessed on the account. Consumers must also be provided a clear disclosure of the fees and terms associated with the institution s overdraft service.

*Registration.* The Secure and Fair Enforcement for Mortgage Licensing Act requires the registration of residential mortgage loan originators employed by banks, savings associations, credit unions, Farm Credit System institutions, and certain subsidiaries of these financial institutions to register with the Nationwide Mortgage Licensing System and Registry, obtain a unique identifier from the registry, and maintain this registration.

**Dodd-Frank Wall Street Reform and Consumer Protection Act**

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act will result in sweeping changes in the regulation of financial institutions aimed at strengthening the operation of the financial services sector. The Dodd-Frank Act s provisions that have received the most public attention generally have been those applying to, or more likely to initially affect, larger institutions. However, it contains numerous other provisions that will affect all banks and bank holding companies that will fundamentally change the system of bank oversight. The Dodd-Frank Act includes provisions that, among other things:

Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the DIF, and increase the floor on the size of the DIF. This change generally will require an increase in the level of assessments for financial institutions with assets in excess of $10 billion.

Make permanent the $250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions.

Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactional and other accounts.

Centralize responsibility for consumer financial protection by creating a new agency within the Federal Reserve called the Consumer Financial Protection Bureau, which will be responsible for implementing, examining, and enforcing compliance with federal consumer financial laws.

Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies. One of these requirements will preclude the Company

from including in Tier 1 capital any trust-preferred securities or cumulative preferred stock, issued on or after May 19, 2010. The Company s currently outstanding trust-preferred securities will be grandfathered and its currently outstanding Troubled Asset Relief Program ( TARP ) preferred securities will continue to qualify as Tier 1 capital.

Amend the Electronic Fund Transfer Act to give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the issuer s actual cost of a transaction.

Some of these provisions may have the consequence of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. The specific impact of the Dodd-Frank Act on our current activities or new financial activities will be considered in the future, and our financial performance and the markets in which we operate will depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers, or the financial industry in general.

**Capital Guidelines**

The Federal Reserve and other federal bank regulators have established risk-based capital guidelines to provide a framework for assessing the adequacy of the capital of national and state banks, thrifts, and their holding companies (collectively, banking institutions ). These guidelines apply to all banking institutions, regardless of size, and are used in the examination and supervisory process and in the analysis of applications to be acted upon by the regulatory authorities. These guidelines require banking institutions to maintain capital based upon the 1988 capital accord ( Basel I ) of the Basel Committee on Banking Supervision (the Basel Committee ).

The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies they apply. The requirements are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments ( risk-weighted assets ).

Capital is classified in one of the following three tiers:

*Core Capital (Tier 1)*. Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, and qualifying trust-preferred securities, less goodwill, most intangible assets, and certain other assets.

*Supplementary Capital (Tier 2).* Tier 2 capital includes perpetual preferred stock and trust-preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and the allowance for credit losses, subject to limitations.

*Market Risk Capital (Tier 3).* Tier 3 capital includes qualifying unsecured subordinated debt.

The Company and the Bank are currently required to maintain Tier 1 capital and total capital (the sum of Tier 1 and Tier 2 capital) equal to at least 4.0% and 8.0%, respectively, of their total risk-weighted assets. In addition, for a depository institution to be considered well-capitalized under the regulatory framework, its Tier 1 and total capital ratios must be at least 6.0% and 10.0%, respectively, of its total risk-weighted assets. Bank holding companies and banks subject to the market risk capital guidelines are required to incorporate market and interest rate risk components into their risk-based capital standards.

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In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III . Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. The Basel III final capital framework, among other things:

- Introduces as a new capital measure Common Equity Tier 1 ( CET1 ),
- Specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting specified requirements,
- Defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital,
- Expands the scope of the adjustments as compared to existing regulations, and
- Adopts an international standard for a leverage ratio calculated as Tier I capital to adjusted average assets plus certain off-balance sheet exposures.

The implementation of the Basel III final framework will commence on January 1, 2013. On that date, banking institutions will be required to meet minimum capital ratios. A 2.5% capital conversion buffer will be added to each ratio as it is phased in until full implementation on January 1, 2019. The minimum capital ratios are as follows:

| | Minimum Required on January 1, 2013 | Capital Conversion Buffer | Minimum Required on January 1, 2019 |
|---|---|---|---|
| CET1 to risk-weighted assets | 4.5% | 2.5% | 7.0% |
| Tier 1 capital to risk-weighted assets | 6.0% | 2.5% | 8.5% |
| Total capital to risk-weighted assets | 8.0% | 2.5% | 10.5% |
| Leverage ratio | N/A | N/A | 3.0% |

Basel III also provides for a countercyclical capital buffer generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

The Basel III final framework provides for a number of new deductions from and adjustments to CET1 that will be phased-in over a five-year period. The implementation of the capital conservation buffer will begin on January 1, 2016 and will be phased in over a four-year period. The U.S. banking agencies have indicated informally that they expect to propose regulations implementing Basel III in mid-2011 with final adoption of implementing regulations in mid-2012. Notwithstanding its release of the Basel III framework as a final framework, the Basel Committee is considering further amendments to Basel III.

Given the many ongoing regulatory initiatives relative to capital requirement, the regulations ultimately applicable to the Company and the Bank may be substantially different from the requirements discussed above. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company s net income and return on equity.

**Illinois Banking Law**

The Illinois Banking Act ( IBA ) governs the activities of the Bank, an Illinois banking corporation. The IBA defines the powers and permissible activities of an Illinois state-chartered bank, prescribes corporate governance standards, imposes approval requirements on mergers of state banks, prescribes lending limits, and provides for the examination of state banks by the IDFPR. The Banking on Illinois Act ( BIA ) became effective in mid-1999 and amended the IBA to provide a wide range of new activities allowed for Illinois state-chartered banks,

including the Bank. The provisions of the BIA are to be construed liberally in order to create a favorable business climate for banks in Illinois. The main features of the BIA are to expand bank powers through a wild card provision that authorizes Illinois state-chartered banks to offer virtually any product or service that any bank or thrift may offer anywhere in the country, subject to restrictions imposed on those other banks and thrifts, certain safety and soundness considerations, and prior notification to the IDFPR and the FDIC.

**Dividends**

The Company s primary source of liquidity is dividend payments from the Bank. In addition to capital guidelines, the Bank is limited in the amount of dividends it can pay to the Company under the IBA. Under this law, the Bank is permitted to declare and pay dividends in amounts up to the amount of its accumulated net profits, provided that it retains in its surplus at least one-tenth of its net profits since the date of the declaration of its most recent dividend until those additions to surplus, in the aggregate, equal the paid-in capital of the Bank. The Bank may not, while it continues its banking business, pay dividends in excess of its net profits then on hand (after deductions for losses and bad debts). In addition, the Bank is limited in the amount of dividends it can pay under the Federal Reserve Act and Regulation H. For example, dividends cannot be paid that would constitute a withdrawal of capital; dividends cannot be declared or paid if they exceed a bank s undivided profits; and a bank may not declare or pay a dividend greater than current year net income plus retained net income of the prior two years without Federal Reserve approval.

Since the Company is a legal entity, separate and distinct from the Bank, its dividends to stockholders are not subject to the bank dividend guidelines discussed above. The IDFPR is authorized to determine, under certain circumstances relating to the financial condition of a bank or bank holding company, that the payment of dividends by the Company would be an unsafe or unsound practice and to prohibit payment thereof. The Federal Reserve has taken the position that dividends that would create pressure or undermine the safety and soundness of the subsidiary bank are inappropriate.

**FDIC Insurance Premiums**

The Bank s deposits are insured through the DIF, which is administered by the FDIC. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It may also prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the DIF.

The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank s capital level and supervisory rating ( CAMELS rating ). The risk matrix utilizes four risk categories, which are distinguished by capital levels and supervisory ratings.

On February 7, 2011, the FDIC approved a final rule on Assessments, Dividends, Assessment Base, and Large Bank Pricing. The final regulation followed a series of FDIC proposed regulations dating back to April 2010, and the final rule encompasses all of these proposed rules. At present, for deposit insurance assessment purposes, an insured depository institution is placed into one of four risk categories each quarter, determined primarily by the institution s capital levels and supervisory evaluation. The total base assessment rates that can be levied on banks range from 7 points for Risk Category I institutions to 77.5 points for Risk Category IV institutions. An institution s assessment is determined by multiplying its assessment rate by its assessment base. Its assessment base is, and has historically been, domestic deposits, with some adjustments.

Under the new rule mandated by the Dodd-Frank Act, the total base assessment rates will range from 2.5 points to 45 points and will be based on average consolidated total assets minus average tangible equity rather than domestic deposits. In addition, the rule adopts a scorecard assessment scheme for larger banks and suspends dividend payments if the DIF reserve ratio exceeds 1.5 percent but provides for decreasing assessment rates when the DIF reserve ratio reaches certain thresholds. Under the rule, larger insured depository institutions will likely be forced to pay higher assessments to the DIF than under the old system.

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The rule will take effect for the quarter beginning April 1, 2011 and will be reflected in the invoices for assessments due September 30, 2011. However, because the Dodd-Frank Act requires that several changes be made to the Consolidated Reports of Condition and Income and the Thrift Financial Report, the effective date is contingent upon these changes being made and may be delayed.

**Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 ( Sarbanes-Oxley ) implemented a broad range of corporate governance and accounting measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of disclosures under federal securities laws. The Company is subject to Sarbanes-Oxley because it is required to file periodic reports with the SEC under the Securities and Exchange Act of 1934. Sarbanes-Oxley has established new membership requirements and additional responsibilities for the Company s audit committee, imposed restrictions on the relationship between the Company and its outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposed additional responsibilities for external financial statements on our chief executive officer and chief financial officer, expanded the disclosure requirements for corporate insiders, required management to evaluate the Company s disclosure controls and procedures and our internal control over financial reporting, and required auditors to issue a report on the Company s internal control over financial reporting.

**Economic Recovery Programs**

In response to the financial market crisis and continuing economic uncertainty, the U.S. government took a variety of extraordinary measures designed to restore confidence in the financial markets and to strengthen financial institutions, including measures available under the Emergency Economic Stabilization Act of 2008 ( EESA ), as amended by the American Recovery and Reinvestment Act of 2009 ( ARRA ), which included the TARP. Under the EESA, the Treasury may take a range of actions to provide liquidity to the U.S. financial markets, including the direct purchase of equity of financial institutions through the Treasury s Capital Purchase Program ( CPP ).

The Company elected to participate in the CPP, and on December 5, 2008, First Midwest issued to the Treasury, in exchange for aggregate consideration of $193.0 million, (i) 193,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series B, liquidation preference of $1,000 per share ( Preferred Shares ) and (ii) a ten-year warrant ( Warrant ) to purchase up to 1,305,230 shares of the Company s common stock, par value $0.01 per share ( Common Stock ) at an exercise price, subject to anti-dilution adjustments, of $22.18 per share. Cumulative dividends on the Preferred Shares will accrue on the liquidation preference at a rate of 5% per annum for the first five years and at a rate of 9% per annum thereafter. The securities were sold in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Preferred Shares generally are nonvoting and qualify as Tier 1 capital.

The letter agreement between the Treasury and the Company, dated December 5, 2008, including the securities purchase agreement concerning the issuance and sale of the Preferred Shares (the Purchase Agreement ), grants the holders of the Preferred Shares, the Warrant, and First Midwest common stock to be issued under the Warrant certain registration rights and imposes restrictions on dividends and stock repurchases. In addition, in the event that the Company fails to declare and pay full dividends (or declare and set aside a sum sufficient for payment thereof) on the Preferred Shares, the Purchase Agreement will impose restrictions on the Company s ability to declare or pay dividends or distributions on, or repurchase, redeem, or otherwise acquire for consideration, shares of its junior stock. For a detailed description of these restrictions, see Item 1A, Risk Factors, elsewhere in this report. In addition, the Purchase Agreement subjects the Company to the executive compensation limitations as set forth in Section 111(b) of the EESA.

In addition, on February 10, 2009, the Treasury adopted the Financial Stability Plan ( FSP ), which is a comprehensive set of measures intended to shore up the financial system. The core elements of the plan include making bank capital injections, creating a public-private investment fund to buy troubled assets, establishing guidelines for loan modification programs, and expanding the Federal Reserve lending program.

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**Executive Compensation Limitations**

Incident to its participation in the CPP, the Company is subject to the executive compensation limitations contained in the EESA and ARRA. These limitations apply to certain of the Company s senior and highly compensated officers and apply as long as the Company holds TARP funds. Currently the limitations include: (i) a prohibition on accruing or paying any bonus, retention award, or incentive compensation to the five most highly compensated officers; (ii) a prohibition on making golden parachute payments (as defined by IRS Section 280(G)) to certain senior and highly compensated officers; (iii) a prohibition on the payment of any tax gross-up to certain senior and highly compensated officers; (iv) the recovery of any bonus or incentive compensation paid to certain senior and highly compensated officers if the financial criteria it was based on was later proven to be materially inaccurate; and (v) a prohibition on compensation that encourages employees to take unnecessary and excessive risks that could threaten the value of the Company.

The Company s Compensation Committee must also certify that it has reviewed with the Company s senior risk officers at least every six months: (i) the Company s compensation plans for senior executive officers to ensure that the plans do not encourage unnecessary and excessive risks taking that may threaten the value of the Company; and (ii) all employee compensation plans in light of the risks posed to the Company.

The ARRA also empowers the Treasury Secretary with the authority to review bonus, retention, and other compensation paid to senior executive officers that have received the TARP assistance to determine if the compensation was inconsistent with the purposes of the ARRA or TARP, or otherwise contrary to the public interest and, if so, seek to negotiate reimbursements. The provisions of the ARRA will apply to the Company until it has redeemed the securities sold to the Treasury under the CPP.

**Employee Incentive Compensation**

In July 2010, the Federal Reserve, along with the other federal banking agencies, issued guidance applying to all banking organizations that requires that their incentive compensation policies be consistent with safety and soundness principles. Under these rules, financial organizations must review their compensation programs to insure that they: (i) provide employees with incentives that appropriately balance risk and reward and that do not encourage imprudent risk; (ii) be compatible with effective controls and risk management; and (iii) be supported by strong corporate governance including active and effective oversight by the banking organization s board of directors. Monitoring methods and processes used by a banking organization should be commensurate with the size and complexity of the organization and its use of incentive compensation.

In addition, on February 7, 2011, the Federal Reserve, along with other federal banking agencies, the National Credit Union Administration, the SEC, and the Federal Housing Finance Agency, published for comment a proposed rule that would regulate incentive-based compensation for entities deemed to be a covered financial institution , which would include both the Company and the Bank. These proposed rules incorporate many of the executive compensation principles described above, including a prohibition on compensation practices that encourage covered persons to take inappropriate risks by providing such person with excessive compensation. Comments are due within 45 days of publication in the Federal Register.

**Future Legislation**

In addition to the specific legislation described above, various additional legislation is currently being considered by Congress. This legislation may change banking statutes and the Company s operating environment in substantial and unpredictable ways and may increase reporting requirements and governance. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Company cannot predict whether any potential legislation will be enacted and, if enacted, the effect that it, or any implementing regulations, would have on its business, results of operations, or financial condition.

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# ITEM 1A. RISK FACTORS

The material risks and uncertainties that management believes affect the Company are described below. Before making an investment decision with respect to any of the Company s securities, you should carefully consider the risks and uncertainties as described below together with all of the information included herein. The risks and uncertainties described below are not the only risks and uncertainties the Company faces. Additional risks and uncertainties not presently known or that are currently deemed immaterial also may have a material adverse effect on the Company s results of operations and financial condition. If any of the following risks actually occur, the Company s results of operations and financial condition could suffer, possibly materially. In that event, the trading price of the Company s common stock or other securities could decline. The risks discussed below also include forward-looking statements, and actual results may differ substantially from those discussed or implied in these forward-looking statements.

**Risks Related to the Company s Business**

*The Company s business may be adversely affected by conditions in the financial markets and economic conditions generally.*

The Company s financial performance generally is dependent upon the business environment in the suburban metropolitan Chicago market, the state of Illinois, and the U.S. as a whole. In particular, the current environment impacts the ability of borrowers to pay interest on and repay principal of outstanding loans as well as the value of collateral securing those loans. A favorable business environment is generally characterized by economic growth, efficient capital markets, low inflation, high business and investor confidence, strong business earnings, and other factors. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; natural disasters; or a combination of these or other factors.

The suburban metropolitan Chicago market, the state of Illinois, and the U.S. as a whole has gone through a prolonged downward economic cycle from 2007 through 2010. Significant weakness in market conditions adversely impacted all aspects of the economy including the Company s business. In particular, dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, negatively impacted the credit performance of construction loans, which resulted in significant write-downs of assets by many financial institutions. Business activity across a wide range of industries and regions was greatly reduced, and local governments and many businesses experienced serious difficulty due to the lack of consumer spending and the lack of liquidity in the credit markets. In addition, unemployment increased significantly during that period. The business environment was adverse for many households and businesses in the suburban metropolitan Chicago market, the state of Illinois, the U.S., and worldwide.

During the past three years, the general business environment has had an adverse effect on the Company s business, and there can be no assurance that the environment will improve in the near term. Although the economy has shown slight indications of slow improvement, such as an increase in consumer spending and stabilization in the labor and financial markets, we expect only moderate improvement in these conditions in the near future. Currently, unemployment levels remain elevated, housing prices remain depressed, and demand for housing is weak due to distressed sales and tightened lending standards. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. Continued market stress could have a material adverse effect on the credit quality of the Company s loans, and therefore, its financial condition and results of operations as well as other potential adverse effects including:

- There could be an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally.

- There could be an increase in write-downs of asset values by financial institutions including the Company.

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The Company s ability to assess the creditworthiness of customers could be impaired if the models and approaches we use to select, manage, and underwrite credits become less predictive of future performance.

The process we use to estimate losses inherent in the Company s loan portfolio requires difficult, subjective, and complex judgments. This process includes forecasts of economic conditions and the impact of these economic conditions on borrowers ability to repay their loans. The process could no longer be capable of accurate estimation and may, in turn, impact its reliability.

The Bank could be required to pay significantly higher FDIC premiums in the future if losses further deplete the DIF.

The Company could face increased competition due to intensified consolidation of the financial services industry. If current levels of market disruption and volatility continue or worsen, there can be no assurance that the Company will not experience an adverse effect, which may be material, on our ability to access capital and on the Company s business, financial condition, and results of operations.

*The Company s business may be adversely affected in the future by the implementation of ongoing regulations regarding banks and financial institutions under the Dodd-Frank Act.*

The Company and the banking industry are subject to extensive regulation and supervision under federal and state laws and regulations. Financial institution regulation has been the subject of significant legislation in recent years and will be the subject of further significant legislation in the future. Significant new laws or changes in, or repeals of, existing laws could have a material adverse effect on the Company s business, financial condition, results of operations, or liquidity.

On July 21, 2010, President Obama signed into law The Dodd-Frank Act, which significantly changes the current bank regulatory structure and affects the lending, deposit, investment, trading, and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations and, consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years. See the section titled Supervision and Regulation in Item 1 of this Form 10-K for a discussion of several significant provisions of the Dodd-Frank Act.

The Dodd-Frank Act is intended to address specific issues that contributed to the financial crisis and is heavily remedial in nature. Several provisions in the Act are applicable to larger institutions (greater than $10 billion in assets). Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company. However, compliance with this new law and its implementing regulations likely will result in additional operating costs that could have a material adverse effect on our financial condition and results of operations. Some of these regulations include:

The Dodd-Frank Act requires new capital regulations to be adopted within 18 months. These regulations must be at least as stringent as, and may call for higher levels of capital than, current regulations. Generally, trust-preferred securities will no longer be eligible as Tier 1 capital, but the Company s currently outstanding trust-preferred securities and TARP preferred stock will be grandfathered and its currently outstanding TARP preferred securities will continue to qualify as Tier 1 capital.

The Dodd-Frank Act creates the Consumer Financial Protection Bureau ( CFPB ), which will be housed in the Federal Reserve. The CFPB will be independent from the Federal Reserve, and it will have a separate budget. The CFPB has rulemaking authority to promulgate regulations regarding

consumer financial products and services offered by all banks and thrifts, their affiliates, and many non-bank financial services firms. We cannot determine what the impact the CFPB s rules and regulations might have on the Bank, its product offerings, its customers ability to purchase products to meet their specific needs, or the Bank s general business practices, but they are likely to be significant given the CFPB s broad powers. The CFPB will have examination and enforcement authority over all banks with more than $10 billion in assets.

The Dodd-Frank Act created the Financial Stability Oversight Council (the Council ) with the primary obligation to identify, monitor, and assist in the management of systemic risk that may pose a threat to the country s financial system. Included in its responsibilities is a requirement to review and, at its option, submit comments as appropriate to any standard-setting body, such as the Financial Accounting Standards Board ( FASB ), with respect to existing or proposed accounting principles, standards, or procedures. Though this responsibility may not directly impact the Company, the Council s review and commentary on accounting matters may result in more consideration by standard-setters of the volatility created by some of its current and proposed standards.

The Dodd-Frank Act permanently implemented FDIC insurance coverage for all deposit accounts up to $250,000. Furthermore, the insurance premium assessment base is revised from all domestic deposits to the average of total assets less tangible equity. The minimum reserve ratio of the deposit insurance fund is increased from 1.15% to 1.35%, with the increase to be covered by assessments on insured institutions with assets over $10 billion until the new reserve ratio is reached. We believe in the short-term, the change in the assessment base calculation may result in a reduced premium charge for the Company from its current charge, but may not result in a lower expense amount since the Company continues to grow its asset base and the FDIC is required to grow its reserves, which have been depleted during this recession.

The Dodd-Frank s Act s so-called Durbin Amendment requires the Federal Reserve Board to adopt regulations limiting interchange fees that can be charged in an electronic debit card transaction to the reasonable and proportionate costs related to the incremental cost of the transaction. Banks under $10 billion in assets are exempt, which would include the Company. The Federal Reserve Board has until July 2011 to complete its regulations, so the timing and ultimate extent of impact to the Company is unknown.

The Dodd-Frank Act significantly changes the regulatory structure of the mortgage lending business, but, in effect, has codified the prudent and customer-focused activities the Company has always pursued. For example, the Dodd-Frank Act provides that a creditor must make a reasonable and good faith determination of a consumer s ability to repay before making a residential mortgage loan. The determination must be based on verified and documented information and must take into account all applicable taxes, insurance, and assessments. This provision could add substantial burdens by requiring the establishment of an escrow account in connection with many 1-4 family mortgages for the payment of taxes and hazard insurance and, if applicable, flood insurance, mortgage insurance, ground rents, and any other required periodic payments or premiums with respect to the property or the loan terms.

The Dodd-Frank Act also modifies the calculation for a loan to be subject to high-cost-loan status under the Home Ownership and Equity Protection Act by requiring the annual percentage rate to be compared to the average prime offer rate for a comparable transaction and not the rate on U.S. Treasury securities having a comparable maturity. The points and fees trigger is lowered, and a prepayment fee trigger is added.

The Dodd-Frank Act authorizes the CFPB to require banks to compile and provide reports relating to its consumer lending, marketing, and other consumer business activities and to make that information available to the public if it is in the public interest.

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The Dodd-Frank Act establishes a modified version of the Volcker Rule and generally prohibits banks from engaging in proprietary trading or holding or obtaining an interest in a hedge fund or private equity fund, to the extent that it would exceed 3% of its Tier 1 capital. A bank s interest in any single hedge fund or private equity fund may not exceed 3% of the assets of that fund. Currently it is unclear if some separate-account bank-owned life insurance ( BOLI ) policies may be included in the definitions of hedge fund and private equity fund, given their frequent exemption from registration under section 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940. The Company like many other financial institutions uses separate-account BOLI permanent life insurance policies to finance the Company s employee benefit liabilities. By subjecting separate account BOLI to the Volcker Rule, we could face a significant financial burden as a result of being required to sell the Company s interests in its separate-account BOLI policies.

The Dodd-Frank Act authorizes banks to pay interest on business checking accounts, which is likely to significantly increase the Company s interest expense.

The Dodd-Frank Act adopts various mortgage lending and predatory lending provisions, which will likely have a significant impact on the Company s administrative expense associated with these lines of business.

The Dodd-Frank Act requires federal regulators jointly to prescribe regulations mandating that financial institutions with more than $1 billion in assets to disclose to their regulators their incentive compensation plans to permit the regulators to determine whether the plans provide executive officers, employees, directors or principal shareholders with excessive compensation, fees or benefits; or could lead to material financial loss to the institution.

*The Company is subject to interest rate risk.*

The Company s earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company s control, including general economic conditions and policies of various governmental and regulatory agencies, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence the amount of interest the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings. Such changes could also affect (i) the Company s ability to originate loans and obtain deposits, (ii) the fair value of the Company s financial assets and liabilities, and (iii) the average duration of the Company s securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company s net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company s results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company s financial condition and results of operations. See the section captioned Net Interest Income in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, located elsewhere in this report for further discussion related to the Company s management of interest rate risk.

*The Company is subject to lending risk.*

There are inherent risks associated with the Company s lending activities and underwriting and documentation controls cannot mitigate all credit risk, especially those outside the Company s control. These risks include the

impact of changes in interest rates and changes in the economic conditions in the markets where the Company operates as well as those across the U.S. Increases in interest rates and/or continuing weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing those loans.

In particular, continuing economic weakness on real estate and related markets could further increase the Company s lending risk as it relates to its commercial real estate loan portfolio and the value of the underlying collateral. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil monetary penalties against the Company.

As of December 31, 2010, 82.6% of the Company s loan portfolio consisted of commercial and industrial and commercial real estate loans. These types of loans are typically larger loans. Because the Company s loan portfolio contains a significant number of commercial and industrial and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Company s financial condition and results of operations. See the section captioned Loan Portfolio and Credit Quality in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, located elsewhere in this report for further discussion related to commercial and industrial and commercial real estate loans.

*Continued deterioration in the real estate market could result in loans that we have restructured to become delinquent and classified as non-accrual loans.*

At December 31, 2010, impaired loans included $22.4 million in restructured loans still accruing interest. Restructured loans are loans for which the original contractual terms have been modified, including forgiveness of principal or interest, due to deterioration in the borrower s financial condition. 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 further decline in the economic conditions in the Company s general market areas or other factors could adversely impact borrowers with restructured loans and cause borrowers to become delinquent or otherwise default or call into question their ability to repay full interest and principal in accordance with the restructured terms. Failure to comply with the restructured terms would result in the restructured loan being reclassified as non-accrual, which could have an adverse effect on the Company s financial condition and results of operations.

*The Company s lending activities are subject to strict regulations.*

The Company is subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil monetary penalties against the Company and could have a material adverse effect on the Company s business and results of operations.

*The Company s allowance for credit losses may be insufficient.*

The Company maintains an allowance for credit losses ( allowance ), which is a reserve established through a provision for loan losses charged to expense that represents management s best estimate of probable losses inherent in the existing loan portfolio. The level of the allowance reflects management s continuing evaluation of industry concentrations; specific credit risks; credit loss experience; current loan portfolio quality; present economic, political, and regulatory conditions; and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for credit losses inherently involves a high degree of subjectivity and requires the Company to make estimates of significant credit risks and future trends, all of which

may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of the Company s control, may require an increase in the allowance for credit losses. In addition, bank regulatory agencies periodically review the Company s allowance for credit losses and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments different from those of management. In addition, if charge-offs in future periods exceed the allowance for credit losses, the Company will need additional provisions to increase the allowance for credit losses. Any increases in the allowance for credit losses will result in a decrease in net income and capital and may have a material adverse effect on the Company s financial condition and results of operations. See the section captioned Allowance for Credit Losses in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, located elsewhere in this report for further discussion related to the Company s process for determining the appropriate level of the allowance for credit losses.

*Real estate market volatility and future changes in disposition strategies could result in net proceeds that differ significantly from fair value appraisals of loan collateral and other real estate owned ( OREO ) and could negatively impact the Company s operating performance.*

Many of the Company s non-performing real estate loans are collateral-dependent, meaning the repayment of the loan is largely dependent upon the successful operation of the property securing the loan. For collateral-dependent loans, we estimate the value of the loan based on appraised value of the underlying collateral less costs to sell. The Company s OREO portfolio consists of properties that it obtained through foreclosure in satisfaction of loans. OREO properties are recorded at the lower of the recorded investment in the loans for which the properties served as collateral or estimated value, less estimated selling costs.

In determining the value of OREO properties and loan collateral, an orderly disposition of the property is generally assumed, except where a different disposition strategy is expected. The disposition strategy the Company has in place for a loan will determine the appraised value it uses (e.g., as-is , orderly liquidation , forced liquidation ). Significant judgment is required in estimating the fair value of property, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility, as experienced during 2009 and 2010.

In response to market conditions and other economic factors, the Company may utilize alternative sale strategies other than orderly dispositions as part of its disposition strategy, such as immediate liquidation sales. In this event, as a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from such sales transactions could differ significantly from estimates used to determine the value of the properties. This could have a material adverse effect on the Company s business, financial condition, and results of operations.

*The Company s estimate of fair values for its investments may not be realizable if it were to sell these securities today.*

The Company s available-for-sale securities are carried at fair value. Accounting standards require the Company to categorize these according to a fair value hierarchy. Over 98% of the Company s available-for-sale securities were categorized in level 2 of the fair value hierarchy (meaning that their fair values were determined by quoted prices for similar assets or other observable inputs). The remaining were categorized as level 3 (meaning that their fair values were determined by inputs that are unobservable in the market and therefore require a greater degree of management judgment). The determination of fair value for securities categorized in level 3 involves significant judgment due to the complexity of factors contributing to the valuation, many of which are not readily observable in the market. The current market disruptions make valuation even more difficult and subjective.

Due to illiquidity in the secondary market for the Company s level 3 securities, fair value of these securities is estimated using discounted cash flow analyses with the assistance of a structured credit valuation firm. Third-party sources also use assumptions, judgments, and estimates in determining securities values, and different third

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parties use different methodologies or provide different prices for similar securities. In addition, the nature of the business of the third party source that is valuing the securities at any given time could impact the valuation of the securities. Consequently, the ultimate sales price for any of these securities could vary significantly from the recorded fair value at December 31, 2010, especially if the security is sold during a period of illiquidity or market disruption or as part of a large block of securities under a forced transaction.

*Turmoil in the financial markets could result in lower fair values for the company s investment securities.*

Major disruptions in the capital markets experienced in the past three years have adversely affected investor demand for all classes of securities and resulted in volatility in the fair values of the Company s investment securities. Significant prolonged reduced investor demand could manifest itself in lower fair values for these securities and may result in recognition of an other-than-temporary impairment, which could have a material adverse effect on the Company s financial condition and results of operations.

Municipal securities can also be impacted by the business environment of their geographic location. Although this type of security has historically experienced extremely low default rates, municipal securities are subject to systemic risk since cash flows are generally dependent upon (i) the ability of the issuing authority to levy and collect taxes or (ii) the ability of the issuer to charge for and collect payment for essential services rendered. If the issuer defaults on its payments, it may result in the recognition of an other-than-temporary impairment or total loss, which could have a material adverse effect on the Company s financial condition and results of operations.

*The Company is subject to environmental liability risk associated with lending activities.*

A significant portion of the Company s loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and could materially reduce the affected property s value or limit the Company s ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company s exposure to environmental liability. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company s financial condition and results of operations.

*The Company s investment in bank owned life insurance may decline in value.*

The Company has bank owned life insurance contracts with a cash surrender value ( CSV ) of $197.6 million as of December 31, 2010. A majority of these contracts are separate account contracts. These contracts are supported by underlying investments whose fair values are subject to volatility in the market. The Company has limited its risk of loss in value of the securities by putting in place stable value contracts that provide protection from a decline in fair value down to 80% of the CSV of the insurance policies. To the extent fair values on individual contracts fall below 80% of book value, the CSV of specific contracts may be reduced or the underlying assets transferred to short-duration investments, resulting in lower earnings. Given the decline in the market during 2008, the Company transferred certain assets underlying specific separate contracts to money market accounts. However, the Company may, in order to increase future returns on investment, redeploy underlying assets into investments subject to higher volatility. As of December 31, 2010, the fair value for all contracts exceeds 80% of book value, but turmoil in the market could result in declines that could have a material adverse effect on the Company s financial condition and results of operations.

*The Company may be adversely affected by the soundness of other financial institutions.*

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company has exposure to many different industries and counterparties and routinely executes transactions

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with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company s credit risk may be exacerbated when the collateral held by the Company cannot be realized upon liquidation or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse effect on the Company s financial condition and results of operations.

*The Company operates in a highly competitive industry and market area.*

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the markets where the Company operates. The Company also faces competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes, further illiquidity in the credit markets, and continued consolidation. Banks, securities firms, and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance, and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic funds transfer and automatic payment systems. Many of the Company s competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services, as well as better pricing for those products and services than the Company can.

The Company s ability to compete successfully depends on a number of factors, including:

- Developing, maintaining, and building long-term customer relationships;
- Expanding the Company s market position;
- Offering products and services at prices and with the features that meet customers needs and demands;
- Introducing new products and services;
- Maintaining a satisfactory level of customer service; and
- Anticipating and adjusting to changes in industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Company s competitive position, which could adversely affect the Company s growth and profitability. This, in turn, could have a material adverse effect on the Company s financial condition and results of operations.

*New lines of business or new products and services may subject the Company to additional risks.*

From time to time, the Company may implement new lines of business or offer new products or services within existing lines of business. There can be substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products or services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Company s system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company s business, financial condition, and results of operations.

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*The Company is subject to extensive government regulation and supervision.*

The Company and the Bank are subject to extensive federal and state regulations and supervision. Banking regulations are primarily intended to protect depositors funds, FDIC funds, and the banking system as a whole, not security holders. These regulations affect the Company s lending practices, capital structure, investment practices, dividend policy, and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations, and policies for possible changes.

Changes to statutes, regulations, or regulatory policies, including changes in the interpretation or implementation of those policies, could affect the Company in substantial and unpredictable ways and could have a material adverse effect on the Company s business, financial condition, and results of operations. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil monetary penalties, and/or damage to the Company s reputation, which could have a material adverse effect on the Company s business, financial condition, and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See the section captioned Supervision and Regulation in Item 1, Business, and Note 19 of Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, of this Form 10-K.

*The recent repeal of federal prohibitions on payment of interest on demand deposits could increase the Company s interest expense.*

All federal prohibitions on the ability of financial institutions to pay interest on business demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, beginning on July 21, 2011, financial institutions could begin offering interest on demand deposits to compete for clients. The Company does not yet know what interest rates other institutions may offer. If the Company begins offering interest on demand deposits to attract additional customers or maintain current customers, the Company s interest expense would increase and its net interest margin would decrease. This could have a material adverse effect on the Company s business, financial condition, and results of operations.

*Overdraft regulation could have an adverse effect on the Company.*

The Federal Reserve amended Regulation E (Electronic Fund Transfers) effective July 1, 2010 to require consumers to opt in, or affirmatively consent, to the institution s overdraft service for ATM and one-time debit card transactions, before overdraft fees may be assessed on the account. Consumers were provided a clear disclosure of the fees and terms associated with the institution s overdraft service. Such change could adversely affect the level of the Company s overdraft fees and have a material adverse effect on the Company s business, financial condition, and results of operations.

*Rapidly implemented legislative and regulatory actions could have an unanticipated and adverse effect on the Company.*

In response to the recent financial market crisis, the U.S. government, specifically the Treasury, Federal Reserve, and FDIC, working in cooperation with foreign governments and other central banks, has taken a variety of extraordinary measures designed to restore confidence in the financial markets and to strengthen financial institutions. The rulemaking relating to these measures was accomplished on a rapid emergency basis in order to address immediate concerns about the stability and continued existence of the global financial system. Recovery programs were rapidly proposed, adopted, and sometimes quickly abandoned in response to changing market conditions and other concerns. The speed of market developments required the government to abandon its traditional pattern and timeline of legislative and regulatory rulemaking, and issue rules on an interim basis

without prior notice and comment. Rulemaking in this manner rather than through the traditional legislative practice does not allow for input by regulated financial institutions, such as the Company, and could lead to uncertainty in the financial markets, disruption to the Company s business, increased costs, and material adverse effects on the Company s financial condition and results of operations.

*The form of final rules implementing Basel II capital standards for smaller financial institutions are uncertain and could have a material adverse effect on such financial institutions and the financial industry.*

In 2004, the Basel Committee published a new capital accord ( Basel II ) to replace Basel I. Basel II provides two approaches for setting capital standards for credit risk: (i) an internal ratings-based approach tailored to individual institutions circumstances; and (ii) a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. Basel II also sets capital requirements for operational risk and refines the existing capital requirements for market risk exposures.

A final rule for implementing the advanced approaches of Basel II in the U.S., which applies only to certain large or internationally active banking organizations, or core banks defined as those with consolidated total assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more became effective as of April 1, 2008. Other U.S. banking organizations can elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but they are not required to apply them. The rule also allows a banking organization s primary federal regulator to determine that the application of the rule would not be appropriate in light of the bank s asset size, level of complexity, risk profile, or scope of operations.

The Company is not required to comply with the advanced approaches of Basel II. In July 2008, the agencies issued a proposed rule that would give banking organizations that do not use the advanced approaches the option to implement a new risk-based capital framework, which would adopt the standardized approach of Basel II for credit risk, the basic indicator approach of Basel II for operational risk, and related disclosure requirements. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where U.S. markets have unique characteristics and risk profiles. Comments on the proposed rule were due to the agencies by October 2008, but a definitive final rule has not been issued. Consequently, it is unclear when and if final rules for the implementation of Basel II will be passed for smaller institutions and in what form. The impact they may have on the cost and availability of different types of credit and the potential compliance costs of implementing the new capital standards, if adopted, are also unknown.

*The short-term and long-term impact of the new Basel III final framework on capital and liquidity ratio requirements is uncertain.*

The Basel III final framework introduces a new capital measure and specifies adjustments to the instruments that comprise Tier 1 capital. In addition, the Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. For a more detailed description of this proposal, refer to the section titled Supervision and Regulation in Item 1, Business of this Form 10-K. The U.S. banking agencies have indicated informally that they expect to propose regulations implementing Basel III in mid-2011 with final adoption of implementing regulations in mid-2012. These new standards are subject to further rulemaking and their terms may well change before implementation. The resulting impact of Basel III on the Company s capital and liquidity ratios and compliance costs is unknown, and could negatively affect the costs and availability of capital alternatives.

*The level of the commercial real estate loan portfolio may subject the Company to additional regulatory scrutiny.*

The FDIC, the Federal Reserve, and the Office of the Comptroller of the Currency have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real

estate lending. Under the guidance, a financial institution that is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors, (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multi-family and non-farm residential properties, loans for construction, land development, and other land loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300% or more of total capital. The joint guidance requires heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment, and monitoring through market analysis and stress testing.

*The Company s information systems may experience an interruption or breach in security.*

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption, or breach in security of these systems could result in failures or disruptions in the Company s customer relationship management, general ledger, deposit, loan, or other systems. The Company has policies and procedures expressly designed to prevent or limit the effect of a failure, interruption, or security breach of its systems. However, there can be no assurance that any such failures, interruptions, or security breaches will not occur or, if they do occur, that the impact will not be substantial. The occurrence of any failures, interruptions, or security breaches of the Company s systems could damage the Company s reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company s financial condition and results of operations.

*The Company is dependent upon outside third parties for processing and handling of Company records and data.*

The Company relies on software developed by third party vendors to process various Company transactions. In some cases, the Company has contracted with third parties to run its proprietary software on behalf of the Company. These systems include, but are not limited to, general ledger, payroll, employee benefits, trust record keeping, loan and deposit processing, merchant processing, and securities portfolio management. While the Company performs a review of controls instituted by the vendor over these programs in accordance with industry standards and performs its own testing of user controls, the Company must rely on the continued maintenance of these controls by the outside party, including safeguards over the security of customer data. In addition, the Company maintains backups of key processing output daily in the event of a failure on the part of any of these systems. Nonetheless, the Company may incur a temporary disruption in its ability to conduct its business or process its transactions, or incur damage to its reputation if the third party vendor fails to adequately maintain internal controls or institute necessary changes to systems. Such disruption or breach of security may have a material adverse effect on the Company s financial condition and results of operations.

*Financial services companies depend on the accuracy and completeness of information about customers and counterparties.*

The Company may rely on information furnished by or on behalf of customers and counterparties in deciding whether to extend credit or enter into other transactions. This information could include financial statements, credit reports, and other financial information. The Company may also rely on representations of those customers, counterparties, or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports, or other financial information could have a material adverse impact on the Company s business, and, in turn, the Company s financial condition and results of operations.

*Improper and fraudulent mortgage servicing and foreclosure documentation could result in liability for losses incurred by government-sponsored enterprises.*

Recent allegations of improper and fraudulent mortgage servicing and foreclosure documentation have been discovered at some of the nation s largest lenders and have resulted in legal investigations into the foreclosure

practices of several financial institutions and their service providers and the suspension of foreclosures of single-family homes. In addition, Federal National Mortgage Association ( Fannie Mae ) and Federal Home Loan Mortgage Corporation ( Freddie Mac ) have indicated that their mortgage servicers will be held liable for losses incurred by the government-sponsored enterprises as a result of flawed foreclosure processes. Further, the Securities and Exchange Commission has issued a request for information about accounting and disclosure issues related to potential risks and costs associated with mortgage and foreclosure related activities.

The Company has a centralized foreclosure process within a single department of the Bank, including foreclosures relating to all residential, home equity, commercial, and serviced loans. As of December 31, 2010, the Bank serviced $97.3 million in loans guaranteed by Fannie Mae or Freddie Mac as part of various securitization transactions. In addition, the Company engages a loan servicer to support the administration and the resolution of covered assets, including single-family covered assets acquired by the Bank in FDIC-assisted transactions. Failure to comply with the applicable mortgage servicing and foreclosure requirements could have an adverse impact on the Company s reputation and results of operations.

*The Company continually encounters technological change.*

The banking and financial services industry continually undergoes technological changes, with frequent introductions of new technology-driven products and services. In addition to serving customers better, the effective use of technology increases efficiency and enables financial institutions to reduce costs. The Company s future success will depend, in part, on its ability to address the needs of its customers by using technology to provide products and services that enhance customer convenience and that create additional efficiencies in the Company s operations. Many of the Company s competitors have greater resources to invest in technological improvements, and the Company may not effectively implement new technology-driven products and services or do so as quickly, which could reduce its ability to effectively compete. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on the Company s business and, in turn, its financial condition and results of operations.

*The Company is subject to claims and litigation pertaining to fiduciary responsibility.*

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

*Consumers and businesses may decide not to use banks to complete their financial transactions.*

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks at one or both ends of the transaction. For example, consumers can now pay bills and transfer funds directly without banks. This could result in the loss of fee income as well as the loss of customer deposits and income generated from those deposits and could have a material adverse effect on the Company s financial condition and results of operations.

*The Company s controls and procedures may fail or be circumvented.*

Management regularly reviews and updates the Company s loan underwriting and monitoring process, internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only

reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company s controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company s business, financial condition, and results of operations.

*The Company and its subsidiaries are subject to examinations and challenges by taxing authorities.*

In the normal course of business, the Company and its subsidiaries are routinely subjected to examinations and challenges from federal and state taxing authorities regarding tax positions taken by the Company and the determination of the amount of tax due. These examinations may relate to income, franchise, gross receipts, payroll, property, sales and use, or other tax returns filed, or not filed, by the Company. The challenges made by taxing authorities may result in adjustments to the amount of taxes due, and may result in the imposition of penalties and interest. If any such challenges are not resolved in the Company s favor, they could have a material adverse effect on the Company s financial condition and results of operations.

*The Company and its subsidiaries may not be able to realize the benefit of deferred tax assets.*

The Company records deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. The deferred tax assets can be recognized in future periods dependent upon a number of factors, including the ability to realize the asset through carryback or carryforward to taxable income in prior or future years, the future reversal of existing taxable temporary differences, future taxable income, and the possible application of future tax planning strategies. A valuation allowance is established for any deferred tax asset for which recovery or settlement is not more likely than not.

Each quarter, the Company assesses its deferred tax asset position, including the recoverability of this asset or the need for a valuation allowance. This assessment takes into consideration positive and negative evidence to determine whether it is more likely than not that a portion of the asset will not be realized. If the Company is not able to recognize deferred tax assets in future periods, it could have a material adverse effect on the Company s financial condition and results of operations.

*The Company and its subsidiaries are subject to changes in federal and state tax laws and changes in interpretation of existing laws.*

The Company s financial performance is impacted by federal and state tax laws. Given the current economic and political environment, and ongoing state budgetary pressures, the enactment of new federal or state tax legislation may occur. The enactment of such legislation, or changes in the interpretation of existing law, including provisions impacting tax rates, apportionment, consolidation or combination, income, expenses, and credits, may have a material adverse effect on the Company s financial condition and results of operations.

*The Company and its subsidiaries are subject to changes in accounting principles, policies, or guidelines.*

The Company s financial performance is impacted by accounting principles, policies, and guidelines. Changes in these are continuously occurring, and given the current economic environment, more drastic changes may occur. The implementation of such changes could have a material adverse effect on the Company s financial condition and results of operations.

*The Company may not be able to attract and retain skilled people.*

The Company s success depends, in large part, on its ability to attract and retain skilled people. Competition for the best people in most activities the Company engages in can be intense, and the Company may not be able to hire people or retain them.

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Participation in the CPP could also affect the Company s ability to attract and retain skilled people. Due to the Company s participation in the CPP, the Company is subject to executive compensation limitations, which may not apply to other financial institutions.

The unexpected loss of services of certain of the Company s skilled personnel could have a material adverse impact on the Company s business because of their skills, knowledge of the Company s market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel.

*The Company is a bank holding company and its sources of funds are limited.*

The Company is a bank holding company, and its operations are primarily conducted by the Bank, which is subject to significant federal and state regulation. Cash available to pay dividends to stockholders of the Company is derived primarily from dividends received from the Bank. The Company s ability to receive dividends or loans from its subsidiaries is restricted. Dividend payments by the Bank to the Company in the future will require generation of future earnings by the Bank and could require regulatory approval if the proposed dividend is in excess of prescribed guidelines. Further, the Company s right to participate in the assets of the Bank upon its liquidation, reorganization, or otherwise will be subject to the claims of the Bank s creditors, including depositors, which will take priority except to the extent the Company may be a creditor with a recognized claim. As of December 31, 2010, the Company s subsidiaries had deposits and other liabilities of $7.0 billion.

*The Company could experience an unexpected inability to obtain needed liquidity.*

Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets, and its access to alternative sources of funds. The Company seeks to ensure its funding needs are met by maintaining a level of liquidity through asset and liability management. If the Company becomes unable to obtain funds when needed, it could have a material adverse effect on the Company s business and, in turn, the Company s financial condition and results of operations.

*Severe weather, natural disasters, acts of war or terrorism, and other external events could significantly impact the Company s business.*

Severe weather, natural disasters, acts of war or terrorism, and other adverse external events could have a significant impact on the Company s ability to conduct business. Such events could affect the stability of the Company s deposit base, impair the ability of borrowers to repay outstanding loans, reduce the value of collateral securing loans, cause significant property damage, result in loss of revenue, and/or cause the Company to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Company s business, which, in turn, could have a material adverse effect on its financial condition and results of operations.

*Managing reputational risk is important to attracting and maintaining customers, investors, and employees.*

Threats to the Company s reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. The Company has policies and procedures in place that seek to protect our reputation and promote ethical conduct. Nonetheless, negative publicity may arise regarding the Company s business, employees, or customers, with or without merit, and could result in the loss of customers, investors, and employees; costly litigation; a decline in revenues; and increased governmental regulation.

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*Future acquisitions may disrupt the company s business and dilute stockholder value.*

In addition to generating internal growth, in the past the Company has strategically acquired banks or branches of other banks. The Company may consider future acquisitions to supplement internal growth opportunities. The Company seeks merger or acquisition partners that are culturally similar and possess either significant market presence or have potential for improved profitability through financial management, economies of sale, or expanded services. Acquiring other banks or branches involves potential risks that could have a material adverse impact on the Company s condition or results of operations, including:

- Exposure to unknown or contingent liabilities of acquired banks;
- Exposure to asset quality issues of acquired banks;
- Disruption of the Company s business;
- Loss of key employees and customers of acquired banks;
- Short-term decrease in profitability;
- Diversion of management s time and attention;
- Issues arising during transition and integration;
- Dilution in the ownership percentage of holdings of the Company s common stock;
- Difficulty in estimating the value of the target company;
- Payment of a premium over book and market values that may dilute the Company s tangible book value and earnings per share in the short and long term;
- Volatility in reported income as goodwill impairment losses could occur irregularly and in varying amounts;
- Inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits; and
- Changes in banking or tax laws or regulations.

The Company from time to time may evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt, or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and therefore, some dilution of the Company s tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on the Company s financial condition and results of operations.

*Competition for acquisition candidates is intense.*

Competition for acquisitions is intense. Numerous potential acquirers compete with the Company for acquisition candidates. The Company may not be able to successfully identify and acquire suitable targets, which could slow the Company s growth rate and have a material adverse effect on its ability to compete in its markets.

*The Company has engaged in FDIC-assisted transactions and may engage in future FDIC-assisted transactions, which could present additional risks to its business.*

In the current economic environment, the Company may be presented with opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. These acquisitions involve risks similar to acquiring existing banks even though the FDIC might provide assistance to mitigate certain risks such as sharing in exposure to credit losses and providing indemnification against certain liabilities of the failed institution. However, because these acquisitions are for failing banks and structured in a manner that would not allow the Company the time normally associated with preparing for and evaluating an acquisition (including preparing for integration of an acquired institution), the Company may face additional risks if it engages in FDIC-assisted

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transactions. The assets the Company would acquire would be more troubled than in a typical acquisition. The deposits the Company would assume would generally be higher priced than in a typical acquisition and, therefore, subject to higher attrition. Integration could be more difficult in this type of acquisition than in a typical acquisition since key staff would have departed. Any inability to overcome these risks could have an adverse effect on the Company s ability to achieve its business strategy and maintain its market value and profitability.

Moreover, even if the Company is inclined to participate in additional FDIC-assisted transactions, the Company can only participate in the bid process if it receives approval of bank regulators. There can be no assurance that the Company will be allowed to participate in the bid process, or what the terms of such transaction might be or whether the Company would be successful in acquiring the bank or targeted assets. The Company may be required to raise additional capital as a condition to, or as a result of, participation in an FDIC-assisted transaction. Any such transactions and related issuances of stock may have a dilutive effect on earnings per common share and share ownership.

Furthermore, to the extent the Company is allowed to, and chooses to, participate in FDIC-assisted transactions, the Company may face competition from other financial institutions with respect to proposed FDIC-assisted transactions. To the extent that our competitors are selected to participate in FDIC-assisted transactions, our ability to identify and attract acquisition candidates and/or make acquisitions on favorable terms may be adversely affected.

*Failure to comply with the terms of loss share agreements with the FDIC may result in significant losses, and the Company may become dependent upon third party vendors in connection with FDIC-assisted transactions.*

Since October 2009, the Company has acquired the majority of the assets of three financial institutions in FDIC-assisted transactions. Most loans and OREO acquired in the acquisitions are covered by Purchase and Assumption Agreements and Loss Share Agreements with the FDIC (the FDIC Agreements ). Under the FDIC Agreements, the FDIC will reimburse the Bank for a portion of losses arising from certain assets of the acquired institutions.

The FDIC Agreements have specific and detailed compliance, servicing, notification and reporting requirements. The Company has engaged a third party loan servicing vendor to administer a portion of the assets subject to the FDIC Agreements, and may engage this or another vendor to provide similar services in the future if the Company engages in future FDIC-assisted transactions. As a result, the Company is, and may increasingly be dependent upon this vendor to provide key services to the Bank. While the Company carefully selected this vendor, the Company may not control the vendor s actions. Any failure by the vendor to comply with the terms of any loss share arrangement the Bank has with the FDIC, or to properly service the loans and OREO covered by any loss share arrangement, may cause individual loans or large pools of loans to lose eligibility for reimbursement to the Bank from the FDIC. This could result in material losses that are currently not anticipated and could adversely affect the Company s business or financial condition.

Furthermore, in the event the Bank engages in additional FDIC-assisted transactions with loss share arrangements, the Company s dependence on this vendor could increase. The services provided by this vendor are unique and not provided by many vendors either locally or nationwide. As a result, the Company s ability to replace this vendor if it so chooses could entail significant delay, expense, and risk to the Company, its business operations, and financial condition.

*The Company may not realize all of the expected benefits of our FDIC-assisted transactions.*

Since October 2009, the Company has acquired the majority of the assets of three financial institutions in FDIC-assisted transactions. Most loans and OREO acquired in the acquisitions are covered by the FDIC Agreements. Although management makes various assumptions and judgments about the collectability of the acquired loans,

including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans associated with these transactions, our estimates of the fair value of assets acquired could be inaccurate. Valuing these assets using inaccurate assumptions could materially and adversely affect our business, financial condition, results of operations, and future prospects.

In FDIC-assisted transactions that include loss-share agreements, we record an FDIC indemnification asset that reflects our estimate of the timing and amount of future losses that are anticipated to occur. In determining the size of the FDIC indemnification asset, we analyze the loan portfolio based on historical loss experience, volume and classification of loans, volume and trends in delinquencies and nonaccruals, local economic conditions, and other pertinent information. Changes in our estimate of the timing of those losses, specifically if those losses are to occur beyond the applicable loss-share periods, may result in impairments of the FDIC indemnification asset, which would have a material adverse effect on the Company s financial condition and results of operations. If our assumptions related to the timing or amount of expected losses are incorrect, there could be a negative impact on our operating results. Increases in the amount of future losses in response to different economic conditions or adverse developments in the acquired loan portfolio may result in increased charge-offs.

*The value of the Company s goodwill and other intangible assets may decline in the future.*

As of December 31, 2010, the Company had $291.4 million of goodwill and other intangible assets. If the Company s stock price declines and remains low for an extended period of time, the Company could be required to write off all or a portion of its goodwill, which represents the value in excess of the Company s tangible book value. The Company s stock price is subject to market conditions that can be impacted by forces outside of the control of management, such as a perceived weakness in financial institutions in general, and may not be a direct result of the Company s performance. In addition, a significant decline in the Company s expected future cash flows, a significant adverse change in the business climate, or slower growth rates may necessitate taking charges in the future related to the impairment of the Company s goodwill and other intangible assets. A write-down of goodwill and/or other intangible assets would reduce earnings in the period in which it is recorded and could have a material adverse effect on the Company s results of operations.

*Regulatory requirements, future growth, or operating results may require the Company to raise additional capital but that capital may not be available or it may be dilutive.*

The Company is required by federal and state regulatory authorities to maintain adequate levels of capital to support its operations. To the extent the regulatory requirements change, the Company s future operating results erode capital or the Company elects to expand through loan growth or acquisition it may be required to raise capital.

The Company s ability to raise capital will depend on conditions in the capital markets, which are outside of its control, and on the Company s financial performance. Accordingly, the Company cannot be assured of its ability to raise capital when needed or on favorable terms. If the Company cannot raise additional capital when needed, it will be subject to increased regulatory supervision and the imposition of restrictions on its growth and business. These could negatively impact the Company s ability to operate or further expand its operations through acquisitions or the establishment of additional branches and may result in increases in operating expenses and reductions in revenues that could have a material adverse effect on its financial condition and results of operations.

*Any reduction in the Company s credit ratings could increase its financing costs.*

Various rating agencies publish credit ratings for the Company s debt obligations, based on their evaluations of a number of factors, some of which relate to Company performance and some of which relate to general industry conditions. Management routinely communicates with each rating agency and anticipates the rating agencies will closely monitor the Company s performance and update their ratings from time to time during the year.

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The Company cannot give any assurance that its current credit ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant. Downgrades in the Company s credit ratings may adversely affect its borrowing costs and its ability to borrow or raise capital, and may adversely affect the Company s reputation. The Company s current credit ratings are as follows:

| Rating Agency | Rating |
|---|---|
| Standard & Poor s Rating Group, a division of the McGraw-Hill Companies, Inc. | BBB - |
| Moody s Investor Services, Inc. | Baa 1 |
| Fitch, Inc. | BBB - |

**Risks Associated With the Company s Common Stock**

*The Company s stock price can be volatile.*

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. The Company s stock price can fluctuate significantly in response to a variety of factors including:

- Actual or anticipated variations in quarterly results of operations;
- Recommendations by securities analysts;
- Operating and stock price performance of other companies that investors deem comparable to the Company;
- News reports relating to trends, concerns, and other issues in the financial services industry;
- Perceptions in the marketplace regarding the Company and/or its competitors;
- New technology used or services offered by competitors;
- Significant acquisitions or business combinations, strategic partnerships, joint venture, or capital commitments by or involving the Company or its competitors;
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- Changes in government regulations; and
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors, and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes, or credit loss trends, could also cause the Company s stock price to decrease regardless of operating results.

*The trading volume in the Company s common stock is less than that of other larger financial services institutions.*

Although the Company s common stock is listed for trading on the Nasdaq Stock Market Exchange, the trading volume in its common stock is less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity, and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company s common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company s common stock, significant sales of the Company s common stock, or the expectation of these sales could cause the Company s common stock price to fall.

*An investment in the Company s common stock is not an insured deposit.*

The Company s common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in the Company s common

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stock is inherently risky for the reasons described in this Risk Factors section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Company s common stock, you could lose some or all of your investment.

*The Company s restated certificate of incorporation, amended and restated by-laws, and amended and restated rights agreement as well as certain banking laws may have an anti-takeover effect.*

Provisions of the Company s Restated Certificate of Incorporation and Amended and Restated By-laws, federal banking laws, including regulatory approval requirements, and the Company s Amended and Restated Rights Plan could make it more difficult for a third party to acquire the Company, even if doing so would be perceived to be beneficial by the Company s stockholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Company s common stock.

*The Company may issue additional securities, which could dilute the ownership percentage of holders of the Company s common stock.*

The Company may issue additional securities to raise additional capital or finance acquisitions or upon the exercise or conversion of outstanding options, and, if it does, the ownership percentage of holders of the Company s common stock could be diluted.

*The Company s participation in the CPP may adversely affect the value of its common stock and the rights of its common stockholders.*

The rights of the holders of the Company s common stock may be adversely affected by the Company s participation in the CPP. For example:

- Prior to the earlier of December 5, 2011 and the date on which all of the Preferred Shares have been redeemed by the Company or transferred by Treasury to third parties, the Company may not, without the consent of Treasury, subject to limited exceptions, redeem, repurchase, or otherwise acquire shares of the Company s common stock or preferred stock.

- The Company may not pay dividends on its common stock unless it has fully paid all required dividends on the Preferred Shares. Although the Company fully expects to be able to pay all required dividends on the Preferred Shares, there is no guarantee that it will be able to do so.

- As long as the Treasury owns the securities purchased from the Company under the CPP, the Company may not, without the prior consent of the Treasury, increase the quarterly dividends it pays on its common stock above $0.31 per share.

- The Preferred Shares will receive preferential treatment in the event of liquidation, dissolution, or winding up of the Company.

- The ownership interest of the existing holders of the Company s common stock will be diluted to the extent the warrant the Company issued to Treasury in conjunction with the sale to Treasury of the Preferred Shares is exercised.

In addition, terms of the Preferred Shares require that quarterly dividends be paid on the Preferred Shares at the rate of 5% per annum for the first five years and 9% per annum thereafter until the stock is redeemed by First Midwest. The payments of these dividends will decrease the excess cash the Company otherwise has available to pay dividends on its common stock and to use for general corporate purposes, including working capital.

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*The Company has not established a minimum dividend payment level, and it cannot ensure its ability to pay dividends in the future.*

On March 16, 2009, the Company s Board of Directors ( the Board ) announced a reduction in the Company s quarterly common stock dividend from $0.225 per share to $0.01 per share. The Company does not have any plans to increase its quarterly dividend in the near future, and any increase may require regulatory approval. In addition, the Company may not pay dividends on its common stock unless it has paid dividends on the CPP Preferred Stock. The Company has not established a minimum dividend payment level, and the amount of its dividend may fluctuate. All dividends will be made at the discretion of the Board and will depend upon the Company s earnings, financial condition, and such other factors as the Board may deem relevant from time to time. The Board may, in its discretion, further reduce or eliminate dividends or change its dividend policy in the future.

In addition, the Federal Reserve has issued Federal Reserve Supervision and Regulation Letter SR-09-4, which requires bank holding companies to inform and consult with Federal Reserve supervisory staff prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid. Under this regulation, if the Company experiences losses in a series of consecutive quarters, it may be required to inform and consult with the Federal Reserve supervisory staff prior to declaring or paying any dividends. In this event, there can be no assurance that the Company s regulators will approve the payment of such dividends.

*All of the Company s debt obligations and senior equity securities will have priority over the Company s common stock with respect to payment in the event of liquidation, dissolution, or winding-up and with respect to the payment of dividends.*

In any liquidation, dissolution, or winding up of First Midwest, the Company s common stock would rank below all debt claims against First Midwest and claims of all of the Company s outstanding shares of preferred stock (including the CPP Preferred Stock) and other senior equity securities. As a result, holders of the Company s common stock will not be entitled to receive any payment or other distribution of assets upon the liquidation, dissolution, or winding-up of First Midwest until after all of the Company s obligations to the Company s debt holders have been satisfied and holders of senior equity securities have received any payment or distribution due to them.

*Offerings of debt, which would be senior to the Company s common stock upon liquidation, and/or preferred equity securities, which may be senior to the Company s common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of the Company s common stock.*

The Company may attempt to increase the Company s capital or raise additional capital by making additional offerings of debt or preferred equity securities, including trust-preferred securities, senior or subordinated notes, and preferred stock. Upon liquidation, holders of the Company s debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of the Company s available assets prior to the holders of the Company s common stock. Additional equity offerings may dilute the holdings of the Company s existing stockholders or reduce the market price of the Company s common stock, or both. Holders of the Company s common stock are not entitled to preemptive rights or other protections against dilution.

The Board is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the Company s stockholders. The Board also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights and preferences over the Company s common stock with respect to dividends or upon the Company s dissolution, winding-up, and liquidation and other terms. If the Company issues preferred stock in the future that has a preference over the Company s common stock with respect to the payment of dividends or upon liquidation, or if the Company issues preferred stock with voting rights that dilute the voting power of the Company s common stock, the rights of holders of the Company s common stock or the market price of the Company s common stock could be adversely affected.

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## ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company does not have any unresolved comments pending with the SEC staff relating to comments received more than 180 days before the end of its fiscal year.

## ITEM 2. PROPERTIES

The executive offices of the Company, the Bank, and certain subsidiary operational facilities are located in a 16-story office building in Itasca, Illinois. The Company and the Bank currently occupy 60,933 square feet of that building, which is leased from an unaffiliated third party.

| | December 31, 2010 |
|---|---|
| Bank offices: | |
| Bank branches | 98 |
| Operational facility in Joliet, Illinois | 1 |
| Dedicated lending office in Champaign, Illinois | 1 |
| Total bank offices | 100 |
| Bank offices owned and not subject to any material liens | 78 |
| Leased bank offices | 22 |
| Total bank offices | 100 |
| Total automated teller machines ( ATMs ) | 137 |

The banking offices are largely located in various communities throughout northern Illinois and northwestern Indiana, primarily the Chicago metropolitan suburban area. The Company also has banking offices in central and western Illinois and eastern Iowa. At certain Bank locations, excess space is leased to third parties. Most of the ATMs are housed at banking locations, and some of them are independently located. In addition, the Company owns other real property that, when considered individually or in the aggregate, is not material to the Company s financial position.

The Company believes its facilities in the aggregate are suitable and adequate to operate its banking business. Additional information with respect to premises and equipment is presented in Note 7 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

## ITEM 3. LEGAL PROCEEDINGS

There are certain legal proceedings pending against the Company and its subsidiaries in the ordinary course of business at December 31, 2010. Based on presently available information, the Company believes that any liabilities arising from these proceedings would not have a material adverse effect on the consolidated financial condition of the Company.

## ITEM 4. RESERVED

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# PART II

## ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY,

## RELATED STOCKHOLDER MATTERS, AND

## ISSUER PURCHASES OF EQUITY SECURITIES

The Company s common stock is traded under the symbol FMBI in the Nasdaq Global Select market tier of The Nasdaq Stock Market. As of December 31, 2010, there were 2,233 stockholders, a number that does not include beneficial owners who hold shares in street name or shareholders from previously acquired companies that have not exchanged their stock. The following table sets forth the closing common stock price, dividends declared per common share, and book value per common share during each quarter of 2010 and 2009.

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fourth | Third | Second | First | Fourth | Third | Second | First |
| Market price of common stock | | | | | | | | |
| High | $ 13.13 | $ 13.43 | $ 17.95 | $ 14.43 | $ 11.50 | $ 11.64 | $ 12.00 | $ 20.25 |
| Low | $ 9.26 | $ 10.72 | $ 12.10 | $ 10.37 | $ 9.09 | $ 6.19 | $ 5.94 | $ 5.96 |
| Quarter-end | $ 11.52 | $ 11.53 | $ 12.16 | $ 13.55 | $ 10.89 | $ 11.27 | $ 7.31 | $ 8.59 |
| Cash dividends declared per common share | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.01 |
| Dividend yield at quarter-end [(1)] | 0.35% | 0.35% | 0.33% | 0.30% | 0.37% | 0.35% | 0.55% | 0.47% |
| Book value per common share at quarter-end | $ 12.40 | $ 13.06 | $ 13.00 | $ 12.84 | $ 13.66 | $ 14.43 | $ 14.22 | $ 14.61 |

(1) Ratios are presented on an annualized basis.

Payment of future dividends is within the discretion of the Company s Board of Directors and will depend on earnings, capital requirements, the operating and financial condition of the Company, and other factors. The Board of Directors makes the dividend determination on a quarterly basis. A further discussion of the Company s philosophy regarding the payment of dividends is included in the Management of Capital section of Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

On December 5, 2008, the Company issued to the U.S. Department of the Treasury (the Treasury ), in exchange for aggregate consideration of $193.0 million, 193,000 shares of preferred stock. While any of these preferred shares remain outstanding, the Company may pay dividends on its common stock, provided that all accrued and unpaid dividends for all past dividend periods on the preferred shares are fully paid. Prior to the third anniversary of the Treasury s investment in the preferred shares, unless the preferred shares have been redeemed by the Company, or the Treasury has transferred its interest in the shares to a third party, the Company will need the consent of the Treasury to increase its common stock dividend above $0.31 per share. See the section entitled Supervision and Regulation - Dividends and Risk Factors - Risks Associated with the Company s Common Stock sections under Items 1, Business and 1A, Risk Factors of this Form 10-K for more information regarding any restriction that may limit the Company s ability to declare dividends in the future.

A discussion regarding the regulatory restrictions applicable to the Bank s ability to pay dividends to the Company is included in the Supervision and Regulation - Dividends and Risk Factors - Risks Associated with the Company s Common Stock sections under Items 1 and 1A of this Form 10-K. A discussion of the Company s philosophy regarding the payment of dividends is included in the Management of Capital section of Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

For a description of the securities authorized for issuance under equity compensation plans, please refer to Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Form 10-K.

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*Stock Performance Graph*

The graph below illustrates, over a five-year period, the cumulative total return (defined as stock price appreciation or depreciation and dividends) to stockholders from the common stock against a broad-market total return equity index and a published industry total return equity index. The broad-market total return equity index used in this comparison is the Standard & Poor s 500 Stock Index (the S&P 500 ), and the published industry total return equity index used in this comparison is the Standard & Poor s SmallCap 600 Banks Index ( S&P SmallCap 600 Banks ).

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN***

Among First Midwest Bancorp, Inc., the S&P 500 Index

and S&P SmallCap 600 Banks

* $100 invested on 12/31/05 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

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**Comparison of Five-Year Cumulative Total Return Among**

**First Midwest, the S&P 500, and the S&P SmallCap 600 Banks [(1)]**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| First Midwest | $ 100.00 | $ 113.70 | $ 93.15 | $ 63.87 | $ 34.99 | $ 37.14 |
| S&P 500 | 100.00 | 115.80 | 122.16 | 76.96 | 97.33 | 111.99 |
| S&P SmallCap 600 Banks | 100.00 | 110.96 | 87.07 | 84.09 | 59.75 | 68.99 |

(1) Assumes $100 invested on December 31, 2005 in First Midwest s Common Stock, the S&P 500, and the S&P SmallCap 600 Banks with the reinvestment of all related dividends.

To the extent this Form 10-K is incorporated by reference into any other filing by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, the foregoing Stock Performance Graph will not be deemed incorporated, unless specifically provided otherwise in such filing and shall not otherwise be deemed filed under such Acts.

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*Issuer Purchases of Equity Securities*

The following table summarizes the Company s monthly common stock purchases during fourth quarter 2010. The Company s Board of Directors 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, 2010. The repurchase program has no set expiration or termination date. Any repurchases are subject to limitations imposed as part of the CPP under the EESA described elsewhere in this report.

**Issuer Purchases of Equity Securities**

(Number of shares in thousands)

| | Total Number of Shares Purchased [1] | Average Price Paid per Share | Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program | Maximum Number of Shares that May Yet Be Purchased Under the Plan or Program |
|---|---|---|---|---|
| October 1 - October 31, 2010 | - | $ - | - | 2,494,747 |
| November 1 - November 30, 2010 | 1,148 | 10.91 | - | 2,494,747 |
| December 1 - December 31, 2010 | - | - | - | 2,494,747 |
| Total | 1,148 | $ 10.91 | - | |

[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 of Directors 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.

For further details regarding the Company s stock repurchase programs, refer to the section titled Management of Capital in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K.

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## ITEM 6. SELECTED FINANCIAL DATA

Consolidated financial information reflecting a summary of the operating results and financial condition of the Company for each of the five years in the period ended December 31, 2010 is presented in the following table. This summary should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this Form 10-K. A more detailed discussion and analysis of the factors affecting the Company s financial condition and operating results is presented in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K.

| | Years ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| **Operating Results (Amounts in thousands, except per share data)** | | | | | |
| Interest income | $ 328,867 | $ 341,751 | $ 409,207 | $ 476,961 | $ 476,409 |
| Interest expense | (49,518) | (90,219) | (162,610) | (236,832) | (224,550) |
| Net interest income | 279,349 | 251,532 | 246,597 | 240,129 | 251,859 |
| Provision for loan losses | (147,349) | (215,672) | (70,254) | (7,233) | (10,229) |
| Noninterest income | 92,032 | 92,563 | 89,618 | 111,054 | 99,014 |
| Gains (losses) on securities sales, net | 17,133 | 26,726 | 8,903 | (746) | 4,269 |
| Securities impairment losses | (4,917) | (24,616) | (44,514) | (50,055) | - |
| Gains on FDIC-assisted transactions | 4,303 | 13,071 | - | - | - |
| Gains on early extinguishment of debt | - | 15,258 | - | - | - |
| Noninterest expense | (278,779) | (234,788) | (194,305) | (199,137) | (192,615) |
| (Loss) income before income tax benefit (expense) | (38,228) | (75,926) | 36,045 | 94,012 | 152,298 |
| Income tax benefit (expense) | 28,544 | 50,176 | 13,291 | (13,853) | (35,052) |
| Net (loss) income | (9,684) | (25,750) | 49,336 | 80,159 | 117,246 |
| Preferred dividends | (10,299) | (10,265) | (712) | - | - |
| Net loss (income) applicable to non-vested restricted shares | 266 | 464 | (142) | (65) | (57) |
| Net (loss) income applicable to common shares | $ (19,717) | $ (35,551) | $ 48,482 | $ 80,094 | $ 117,189 |
| Weighted-average common shares outstanding | 72,422 | 50,034 | 48,462 | 49,295 | 49,102 |
| Weighted-average diluted common shares outstanding | 72,422 | 50,034 | 48,515 | 49,586 | 49,463 |
| **Per Common Share Data** | | | | | |
| Basic (loss) earnings per common share | $ (0.27) | $ (0.71) | $ 1.00 | $ 1.62 | $ 2.39 |
| Diluted (loss) earnings per common share | (0.27) | (0.71) | 1.00 | 1.62 | 2.37 |
| Common dividends declared | 0.040 | 0.040 | 1.155 | 1.195 | 1.120 |
| Book value at year end | 12.40 | 13.66 | 14.72 | 14.94 | 15.01 |
| Market price at year end | 11.52 | 10.89 | 19.97 | 30.60 | 38.68 |
| **Performance Ratios** | | | | | |
| Return on average common equity | (2.06%) | (4.84%) | 6.46% | 10.68% | 16.86% |
| Return on average assets | (0.12%) | (0.32%) | 0.60% | 0.99% | 1.42% |
| Net interest margin tax-equivalent | 4.13% | 3.72% | 3.61% | 3.58% | 3.67% |
| Dividend payout ratio | (14.81%) | (5.63%) | 115.50% | 73.77% | 47.26% |
| Average equity to average assets ratio | 14.31% | 11.50% | 9.30% | 9.27% | 8.42% |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| **Balance Sheet Highlights (Amounts in thousands)** | | | | | |
| Total assets | $ 8,146,973 | $ 7,710,672 | $ 8,528,341 | $ 8,091,518 | $ 8,441,526 |
| Loans, excluding covered loans | 5,100,560 | 5,203,246 | 5,360,063 | 4,963,672 | 5,008,944 |
| Deposits | 6,511,476 | 5,885,279 | 5,585,754 | 5,778,861 | 6,167,216 |
| Subordinated debt | 137,744 | 137,735 | 232,409 | 230,082 | 228,674 |
| Long-term portion of Federal Home Loan Bank advances | 112,500 | 147,418 | 736 | 136,064 | 14,660 |
| Stockholders equity | 1,112,045 | 941,521 | 908,279 | 723,975 | 751,014 |
| **Financial Ratios** | | | | | |
| Allowance for credit losses as a percent of loans, excluding covered loans | 2.84% | 2.78% | 1.75% | 1.25% | 1.25% |
| Total capital to risk-weighted assets | 16.18% | 13.94% | 14.36% | 11.58% | 12.16% |
| Tier 1 capital to risk-weighted assets | 14.11% | 11.88% | 11.60% | 9.03% | 9.56% |
| Tier 1 leverage to average assets | 11.16% | 10.18% | 9.41% | 7.46% | 7.29% |
| Tangible common equity to tangible assets | 7.99% | 6.29% | 5.23% | 5.58% | 5.62% |

# ITEM 7. 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 Consolidated Statements of Income for the years 2008 through 2010 and Consolidated Statements of Financial Condition as of December 31, 2009 and 2010. 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. W we use the term the Bank, we are referring to our wholly owned banking subsidiary, First Midwest Bank. The discussion is designed to provide stockholders with a comprehensive review of the operating results and financial condition and should be read in conjunction with the consolidated financial statements, accompanying notes thereto, and other financial information presented in this Form 10-K.

A condensed review of operations for the fourth quarter of 2010 is included herein in the section titled Fourth Quarter 2010 vs. 2009. The review provides an analysis of the quarterly earnings performance for the fourth quarter of 2010 compared to the same period in 2009.

Unless otherwise stated, all earnings per common share data included in this section and throughout the remainder of this discussion are presented on a diluted basis.

## PERFORMANCE OVERVIEW

### *General Overview*

Our banking network is located primarily in suburban metropolitan Chicago with additional locations in central and western Illinois and eastern Iowa. We provide a full range of business and retail banking and trust and advisory services through 100 banking offices, including 98 banking branches, one operational facility, and one dedicated lending office. Our primary sources of revenue are net interest income and fees from financial services provided to customers. Business volumes tend to be influenced by overall economic factors including market interest rates, business spending, consumer confidence, competitive conditions within the marketplace, and certain seasonal factors.

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**Table 1**

**Selected Financial Data**

(Dollar amounts in thousands, except per share data)

| | Years ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010-2009 | 2009-2008 |
| **Operating Results** | | | | | |
| Interest income | $ 328,867 | $ 341,751 | $ 409,207 | (3.8) | (16.5) |
| Interest expense | (49,518) | (90,219) | (162,610) | (45.1) | (44.5) |
| Net interest income | 279,349 | 251,532 | 246,597 | 11.1 | 2.0 |
| Fee-based revenues | 86,762 | 85,168 | 95,106 | 1.9 | (10.4) |
| Other noninterest income | 5,270 | 7,395 | (5,488) | (28.7) | 234.7 |
| Write-down of bank owned life insurance ( BOLI ) included in noninterest income [1] | - | - | 10,360 | - | (100.0) |
| Noninterest expense excluding losses realized on other real estate owned ( OREO ), Federal Deposit Insurance Corporation ( FDIC ) special assessment, and integration costs associated with FDIC-assisted transactions [2] | (234,975) | (212,734) | (192,739) | 10.5 | 10.4 |
| **Pre-tax, pre-provision core operating earnings [3]** | **136,406** | **131,361** | **153,836** | **3.8** | **(14.6)** |
| Provision for loan losses | (147,349) | (215,672) | (70,254) | (31.7) | 207.0 |
| Gains on securities sales, net | 17,133 | 26,726 | 8,903 | (35.9) | 200.2 |
| Securities impairment losses | (4,917) | (24,616) | (44,514) | (80.0) | (44.7) |
| Gains on FDIC-assisted transactions | 4,303 | 13,071 | - | (67.1) | 100.0 |
| Integration costs associated with FDIC-assisted transactions | (3,324) | - | - | 100.0 | - |
| Gains on early extinguishment of debt | - | 15,258 | - | (100.0) | 100.0 |
| Write-down of BOLI [1] | - | - | (10,360) | - | 100.0 |
| Write-downs of OREO [2] | (23,367) | (12,584) | (1,261) | 85.7 | N/M |
| Losses on sales of OREO, net [2] | (17,113) | (5,970) | (305) | 186.6 | N/M |
| FDIC special deposit insurance assessment [2] | - | (3,500) | - | (100.0) | 100.0 |
| (Loss) income before income tax benefit (expense) | (38,228) | (75,926) | 36,045 | (49.7) | (310.6) |
| Income tax benefit | 28,544 | 50,176 | 13,291 | (43.1) | 277.5 |
| Net (loss) income | (9,684) | (25,750) | 49,336 | (62.4) | (152.2) |
| Preferred dividends | (10,299) | (10,265) | (712) | 0.3 | N/M |
| Net loss (income) applicable to non-vested restricted shares | 266 | 464 | (142) | (42.7) | (426.8) |
| Net (loss) income applicable to common shares | $ (19,717) | $ (35,551) | $ 48,482 | (44.5) | (173.3) |
| Diluted (loss) earnings per common share | $ (0.27) | $ (0.71) | $ 1.00 | (62.0) | (171.0) |
| **Performance Ratios** | | | | | |
| Return on average common equity | (2.06%) | (4.84%) | 6.46% | | |
| Return on average assets | (0.12%) | (0.32%) | 0.60% | | |
| Net interest margin - tax equivalent | 4.13% | 3.72% | 3.61% | | |
| Efficiency ratio | 58.84% | 57.86% | 53.49% | | |

N/M - Not meaningful.

[1] For a further discussion of the Company s investment in bank owned life insurance, see the section titled Investment in Bank Owned Life Insurance and Note 1 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

[2] For further discussion of losses realized on OREO, the FDIC special assessment, and integration costs associated with FDIC-assisted transactions, see the section titled Noninterest Expense.

[3] The Company s accounting and reporting policies conform to U.S. generally accepted accounting principles ( GAAP ) and general practice within the banking industry. As a supplement to GAAP, the Company has provided this non-GAAP performance result. The Company believes that this non-GAAP financial measure is useful because it allows investors to assess the Company s operating performance. Although this non-GAAP financial measure is intended to enhance investors understanding of the Company s business and performance, this non-GAAP financial measure should not be considered an alternative to GAAP.

| | December 31, 2010 | December 31, 2009 | Dollar Change | % Change |
|---|---|---|---|---|
| **Balance Sheet Highlights** | | | | |
| Total assets | $ 8,146,973 | $ 7,710,672 | $ 436,301 | 5.7 |
| Total loans, excluding covered loans | 5,100,560 | 5,203,246 | (102,686) | (2.0) |
| Total deposits | 6,511,476 | 5,885,279 | 626,197 | 10.6 |
| Transactional deposits | 4,519,492 | 3,885,885 | 633,607 | 16.3 |
| Loans to deposits ratio | 78.3% | 88.4% | | |
| Transactional deposits to total deposits | 69.4% | 66.0% | | |
| **Asset Quality Highlights** [(1)] | | | | |
| Non-accrual loans | $ 211,782 | $ 244,215 | $ (32,433) | (13.3) |
| 90 days or more past due loans (still accruing interest) | 4,244 | 4,079 | 165 | 4.0 |
| Total non-performing loans | 216,026 | 248,294 | (32,268) | (13.0) |
| Restructured loans (still accruing interest) | 22,371 | 30,553 | (8,182) | (26.8) |
| Other real estate owned | 31,069 | 57,137 | (26,068) | (45.6) |
| Total non-performing assets | $ 269,466 | $ 335,984 | $ (66,518) | (19.8) |
| 30-89 days past due loans | $ 23,646 | $ 37,912 | $ (14,266) | (37.6) |
| Allowance for credit losses | 145,072 | 144,808 | 264 | 0.2 |
| Allowance for credit losses as a percent of loans | 2.84% | 2.78% | | |

(1) Excludes covered loans and covered OREO. For a discussion of covered assets, refer to Note 5 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K. Asset quality, including covered loans and covered OREO, is included in the section titled Loan Portfolio and Credit Quality elsewhere in this report.

***2010 Compared with 2009***

Net loss in 2010 was $9.7 million, before adjustment for preferred dividends and non-vested restricted shares, with a $19.7 million loss, or $(0.27) per common share, applicable to common shareholders after such adjustments. This compares to net loss of $25.8 million, before adjustment for preferred dividends and non-vested restricted shares for 2009 and net loss applicable to common shareholders of $35.6 million, or $(0.71) per common share, for 2009. The year-over-year improvement was largely due to higher net interest income and lower provision for loan losses, which more than offset higher noninterest expense, including losses recognized on OREO.

Pre-tax, pre-provision core operating earnings for 2010 were $136.4 million, an increase of 3.8% from 2009. The increase over 2009 was primarily driven by higher average interest-earning assets, improved net interest margins, and greater fee-based revenues, which offset higher costs related to FDIC-assisted transactions and loan remediation activities.

Our 2010 tax-equivalent net interest income increased $24.5 million compared to 2009. Interest expense declined $40.7 million, reflecting both a decline in total interest-bearing liabilities and the rates paid for these liabilities. Tax-equivalent interest income declined $16.2 million compared to 2009 due to a 14 basis point decline in tax-equivalent yield. The net result of these changes was an increase in tax-equivalent net interest income.

Fee-based revenues, which comprise the majority of noninterest income, of $86.8 million for 2010 grew by 1.9% compared to 2009. Service charge fees declined due primarily to lower overdraft and non-sufficient fund fees. However, this decline was more than offset by increases in other service charges, commissions, and fees (primarily merchant fee income), card-based fees, and trust and investment advisory fees.

Noninterest expense rose by 18.7% for 2010 compared to 2009. The increase was attributed to higher losses and write-downs on OREO and increases in loan remediation costs (including costs to service certain assets acquired

in FDIC-assisted transactions), other professional services fees from the valuation and integration of FDIC-acquired assets, and compensation expense. We recorded integration expenses associated with our FDIC-assisted transactions of $3.3 million in 2010.

As of December 31, 2010, our securities portfolio totaled $1.1 billion, decreasing 15.6% from December 31, 2009, following a 41.3% decrease from December 31, 2008. Our securities portfolio has been declining for the past two years as we took advantage of opportunities in the market to sell securities at a gain, given the low interest rate environment.

In 2010, we sold $390.9 million in collateralized mortgage obligations, other mortgage-backed securities, municipal securities, and corporate bonds for a gain of $17.1 million. Net securities gains were $12.2 million for 2010 and were net of other-than-temporary impairment charges of $4.9 million. Impairment charges were primarily related to our collateralized debt obligations. For a detailed discussion of our securities portfolio, refer to the section titled Investment Portfolio Management.

Outstanding loans, excluding covered loans, of $5.1 billion as of December 31, 2010 benefited from 1.9% growth in commercial and industrial loans in addition to increases in multi-family loans of 4.8% and other commercial real estate lending of 7.6%. These increases were more than offset by a 37.8% decline in the commercial and residential construction loan portfolios from December 31, 2009, which resulted from continued efforts to remediate and reduce exposure to these lending categories.

Excluding covered loans and covered OREO, non-performing assets as of December 31, 2010 were $269.5 million, down $66.5 million, or 19.8%, compared to December 31, 2009. Non-performing loans, excluding covered loans, represented 4.24% of total loans at December 31, 2010, compared to 4.77% at December 31, 2009. Loans 30-89 days delinquent totaled $23.6 million at December 31, 2010 down $14.3 million from December 31, 2009. The improvement in asset quality was substantially driven by loan charge-offs, OREO write-downs, and disposals of non-performing assets and was offset by loans downgraded to non-accrual status.

In fourth quarter 2010, the lagging market recovery for real estate in the suburban Chicago market warranted a reassessment of the existing disposition strategies for our non-performing assets and a shift to more aggressively pursue remediation. In selecting non-performing assets for disposition strategy reassessment, we specifically targeted construction-related loans and OREO that are believed to be subject to longer estimated recovery periods and have a higher likelihood of further declines in value due to their geographic location. Due to these conditions, we reassessed underlying collateral values based on current offers, verbal or written, if available. If offers were not available, we relied upon current offers for similar properties located in similar geographic areas. As a result, we wrote down selected non-performing construction loans and OREO to better reflect expected proceeds from disposition, resulting in additional fourth quarter loan charge-offs and OREO write-downs.

For a discussion of our loan portfolio and credit quality, see the section titled Loan Portfolio and Credit Quality elsewhere in this report.

We completed three FDIC-assisted transactions since October 2009. For a discussion of these transactions, see the section titled Covered Assets elsewhere in this report.

Average core transactional deposits for 2010 were $4.3 billion, an increase of $587.2 million, or 15.7%, from 2009. Contributing to this increase was approximately $325 million in core transactional deposits acquired through FDIC-assisted transactions. For a discussion of our funding sources, see the section titled Funding and Liquidity Management elsewhere in this report.

During the year, we notably improved the quality of our capital composition through the issuance of common stock, which resulted in a $196.0 million increase in stockholders equity, net of underwriting discount and related expenses. For a discussion of our capital position, see the section titled Management of Capital elsewhere in this report.

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***2009 Compared with 2008***

Net loss in 2009 was $25.8 million, before adjustment for preferred dividends and non-vested restricted shares, with a $35.6 million loss, or $(0.71) per share, available to common shareholders after such adjustments. This compares to net income of $49.3 million, before adjustment for preferred dividends and non-vested restricted shares and net available to common shareholders of $48.5 million, or $1.00 per share, for 2008. The difference was largely due to higher provision for loan losses, FDIC insurance premiums, and loan remediation expenses. The higher losses and expenses were partially offset by an increase in net gains on securities, debt extinguishment, and an FDIC-assisted transaction.

Pre-tax, pre-provision core operating earnings for 2009 were $131.4 million, a decrease of 14.6% from 2008. Improved net interest income was more than offset by lower fee-based revenue and higher remediation costs and FDIC premiums.

As property values decreased and non-performing assets rose in 2009, we recorded higher charge-offs and significantly increased our allowance for credit losses as we worked to align our problem asset carrying values with our planned disposition strategies. During 2009, we increased our allowance for credit losses to $144.8 million, up $50.9 million from December 31, 2008. The allowance for credit losses represented 2.78% of total loans outstanding at December 31, 2009 compared to 1.75% at December 31, 2008. The allowance for credit losses as a percentage of non-performing loans was 58% at December 31, 2009, up from 57% at December 31, 2008.

The provision for loan losses for 2009 was $215.7 million compared to $70.3 million for 2008. Net charge-offs for 2009 totaled $164.7 million, or 3.08% of average loans compared to $38.2 million, or 0.74% of average loans, for 2008. Charge-offs and provisioning during 2009 were largely influenced by the credit performance of our residential construction loan portfolio.

During 2009, we also notably improved the quality of our capital composition by increasing our level of tangible common equity. We did so primarily through the exchange of approximately one-third of each of our 5.85% subordinated and 6.95% trust-preferred debt for common stock at a discount and the delevering of our investment portfolio at a gain. Our tangible common equity ratio was 6.29% at December 31, 2009, which was 106 basis points higher than at December 31, 2008.

Outstanding loans, excluding covered loans, totaled $5.2 billion as of December 31, 2009, a decrease of 2.9% from December 31, 2008. During 2009, extensions of new credits were more than offset by paydowns, charge-offs, conversion of loans to OREO, and the securitization of $25.7 million of 1-4 family mortgages. The securitized mortgages are now included in the securities available-for-sale portfolio.

Average core transactional deposits for 2009 were $3.7 billion, an increase of 4.9% from 2008. The increase from 2008 primarily reflected customers desires to maintain more liquid, short-term deposits.

Our securities portfolio totaled $1.3 billion as of December 31, 2009. During 2009, we took advantage of market conditions to sell $855.4 million in securities at a gain of $26.7 million and used these sales proceeds along with cash from maturing investments to reduce our higher cost wholesale funds and improve our net interest margin. These actions served to delever our balance sheet and also contributed to our improved tangible capital ratio.

Tax-equivalent net interest margin was 3.72% for 2009, an 11 basis point increase from 3.61% for 2008. The improvement in margin reflected the combination of higher loan yields, the exchange of a significant portion of our subordinated debt and trust-preferred securities for common shares of the Company, and the reduction of other wholesale borrowings made possible from the delevering of the investment portfolio.

Fee-based revenues decreased for 2009 from 2008 and reflected the impact of lower transaction volumes caused by reduced consumer spending.

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Noninterest expense increased $40.5 million for 2009 compared to 2008. The increase was due primarily to higher loan remediation costs, including costs associated with maintaining OREO and higher FDIC insurance premiums.

***Management s Outlook***

While signs of economic recovery and stability are beginning to emerge, the operating environment remains difficult as we enter 2011. In this challenging credit environment, it is our belief that our solid core operating performance, coupled with an expanded capital base, positions us to better navigate the uncertainty of the times, meet the needs of our clients and communities, and benefit from future recovery in the marketplace.

**EARNINGS PERFORMANCE**

***Net Interest Income***

Net interest income is our primary source of revenue. Net interest income equals the difference between interest income plus fees earned on interest-earning assets and interest expense incurred on interest-bearing liabilities. The level of interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income. Net interest margin represents net interest income as a percentage of total average interest-earning assets. The accounting policies underlying the recognition of interest income on loans, securities, and other interest-earning assets are presented in Note 1 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

Our accounting and reporting policies conform to GAAP and general practice within the banking industry. For purposes of this discussion, both net interest income and net interest margin have been adjusted to a fully tax-equivalent basis to more appropriately compare the returns on certain tax-exempt loans and securities to those on taxable interest-earning assets. Although we believe that these non-GAAP financial measures enhance investors understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP. The effect of such adjustment is presented in the following table.

**Table 2**

**Effect of Tax-Equivalent Adjustment**

(Dollar amounts in thousands)

| | Years Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010-2009 | 2009-2008 |
| Net interest income (GAAP) | $ 279,349 | $ 251,532 | $ 246,597 | 11.1 | 2.0 |
| Tax-equivalent adjustment | 16,312 | 19,658 | 22,225 | (17.0) | (11.6) |
| Tax-equivalent net interest income | $ 295,661 | $ 271,190 | $ 268,822 | 9.0 | 0.9 |

Table 3 summarizes our average interest-earning assets and interest-bearing liabilities for the years ended December 31, 2010, 2009, and 2008, the related interest income and interest expense for each earning asset category and funding source, and the average interest rates earned and paid. Table 4 details changes from the prior year in income generated by earning assets and expense incurred for each funding source and analyzes the extent to which any changes are attributable to volume and rate changes.

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**Table 3**

**Net Interest Income and Margin Analysis**

(Dollar amounts in thousands)

| | 2010 | | | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest | Yield/ Rate (%) | Average Balance | Interest | Yield/ Rate (%) | Average Balance | Interest | Yield/ Rate (%) |
| **Assets:** | | | | | | | | | |
| Federal funds sold and other short-term investments | $ 368,172 | $ 933 | 0.25 | $ 90,531 | $ 199 | 0.22 | $ 18,108 | 221 | 1.22 |
| Securities: | | | | | | | | | |
| Trading - taxable | 13,851 | 181 | 1.31 | 12,270 | 227 | 1.85 | 17,202 | 289 | 1.68 |
| Available-for-sale - taxable | 527,129 | 21,589 | 4.10 | 890,848 | 41,932 | 4.71 | 1,171,264 | 61,844 | 5.28 |
| Available-for-sale - nontaxable (1) | 593,041 | 37,038 | 6.25 | 770,380 | 47,895 | 6.22 | 936,933 | 57,344 | 6.12 |
| Held-to-maturity - taxable | 11,079 | 527 | 4.76 | 8,520 | 460 | 5.40 | 7,670 | 341 | 4.45 |
| Held-to-maturity - nontaxable (1) | 75,787 | 5,468 | 7.21 | 77,464 | 5,444 | 7.03 | 84,718 | 5,879 | 6.94 |
| Total securities | 1,220,887 | 64,803 | 5.31 | 1,759,482 | 95,958 | 5.45 | 2,217,787 | 125,697 | 5.67 |
| Federal Home Loan Bank ( FHLB ) and Federal Reserve Bank stock | 60,249 | 1,349 | 2.24 | 55,081 | 1,199 | 2.18 | 54,767 | 1,318 | 2.41 |
| Loans (1)(2): | | | | | | | | | |
| Commercial and industrial | 1,463,810 | 72,551 | 4.96 | 1,481,501 | 71,509 | 4.83 | 1,435,525 | 85,319 | 5.94 |
| Agricultural | 208,288 | 9,522 | 4.57 | 209,455 | 9,737 | 4.65 | 242,858 | 12,794 | 5.27 |
| Commercial real estate | 2,863,540 | 146,980 | 5.13 | 2,954,510 | 146,334 | 4.95 | 2,709,367 | 161,149 | 5.95 |
| Consumer | 510,001 | 23,800 | 4.67 | 536,788 | 25,371 | 4.73 | 547,965 | 31,771 | 5.80 |
| 1-4 family mortgages | 145,515 | 7,956 | 5.47 | 166,725 | 9,683 | 5.81 | 214,164 | 13,163 | 6.15 |
| Total loans, excluding covered loans | 5,191,154 | 260,809 | 5.02 | 5,348,979 | 262,634 | 4.91 | 5,149,879 | 304,196 | 5.91 |
| Covered loans (3) | 323,595 | 17,285 | 5.34 | 28,049 | 1,419 | 5.06 | - | - | - |
| Total loans | 5,514,749 | 278,094 | 5.04 | 5,377,028 | 264,053 | 4.91 | 5,149,879 | 304,196 | 5.91 |
| Total interest-earning assets (1)(2) | 7,164,057 | 345,179 | 4.82 | 7,282,122 | 361,409 | 4.96 | 7,440,541 | 431,432 | 5.80 |
| Cash and due from banks | 125,273 | | | 119,469 | | | 136,547 | | |
| Allowance for credit losses | (154,634) | | | (127,037) | | | (66,378) | | |
| Other assets | 889,958 | | | 789,555 | | | 714,730 | | |
| Total assets | $ 8,024,654 | | | $ 8,064,109 | | | $ 8,225,440 | | |
| **Liabilities and Stockholders Equity:** | | | | | | | | | |
| Savings deposits | $ 815,371 | 2,295 | 0.28 | $ 751,386 | 3,024 | 0.40 | $ 792,524 | 7,148 | 0.90 |
| NOW accounts | 1,082,774 | 1,895 | 0.18 | 984,529 | 3,102 | 0.32 | 935,429 | 9,637 | 1.03 |
| Money market deposits | 1,199,362 | 6,019 | 0.50 | 937,766 | 9,213 | 0.98 | 787,218 | 13,220 | 1.68 |
| Total interest-bearing transactional deposits | 3,097,507 | 10,209 | 0.33 | 2,673,681 | 15,339 | 0.57 | 2,515,171 | 30,005 | 1.19 |
| Time deposits | 1,991,637 | 26,918 | 1.35 | 2,001,207 | 48,838 | 2.44 | 2,172,379 | 80,617 | 3.71 |
| Total interest-bearing deposits | 5,089,144 | 37,127 | 0.73 | 4,674,888 | 64,177 | 1.37 | 4,687,550 | 110,622 | 2.36 |
| Borrowed funds | 359,174 | 3,267 | 0.91 | 1,118,792 | 12,569 | 1.12 | 1,438,908 | 37,192 | 2.58 |
| Subordinated debt | 137,739 | 9,124 | 6.62 | 208,621 | 13,473 | 6.46 | 231,961 | 14,796 | 6.38 |
| Total interest-bearing liabilities | 5,586,057 | 49,518 | 0.89 | 6,002,301 | 90,219 | 1.50 | 6,358,419 | 162,610 | 2.56 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Demand deposits | 1,224,629 | | | 1,061,208 | | | 1,043,972 | | |
| Other liabilities | 65,749 | | | 72,927 | | | 58,318 | | |
| Stockholders equity - common | 955,219 | | | 734,673 | | | 750,497 | | |
| Stockholders equity - preferred | 193,000 | | | 193,000 | | | 14,234 | | |
| Total liabilities and stockholders equity | $ 8,024,654 | | | $ 8,064,109 | | | $ 8,225,440 | | |
| Net interest income/margin [1] | | $ 295,661 | 4.13 | | $ 271,190 | 3.72 | | $ 268,822 | 3.61 |

[1] Interest income and yields are presented on a tax-equivalent basis, assuming a federal income tax rate of 35%.

[2] Loans on a non-accrual basis for the recognition of interest income totaled $211.8 million as of December 31, 2010, $244.2 million as of December 31, 2009, and $127.8 million as of December 31, 2008 and are included in loans for purposes of this analysis.

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

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**Table 4**

**Changes in Net Interest Income Applicable to Volumes and Interest Rates [1]**

(Dollar amounts in thousands)

| | 2010 compared to 2009 | | | 2009 compared to 2008 | | |
|---|---|---|---|---|---|---|
| | Volume | Rate | Total | Volume | Rate | Total |
| Federal funds sold and other short-term investments | $ 700 | $ 34 | $ 734 | $ 422 | $ (444) | $ (22) |
| Securities: | | | | | | |
| Trading - taxable | 35 | (81) | (46) | (95) | 33 | (62) |
| Available-for-sale - taxable | (15,433) | (4,910) | (20,343) | (13,700) | (6,212) | (19,912) |
| Available-for-sale - nontaxable [2] | (11,077) | 220 | (10,857) | (10,371) | 922 | (9,449) |
| Held-to-maturity - taxable | 111 | (44) | 67 | 41 | 78 | 119 |
| Held-to-maturity - nontaxable [2] | (105) | 129 | 24 | (511) | 76 | (435) |
| Total securities | (26,469) | (4,686) | (31,155) | (24,636) | (5,103) | (29,739) |
| Federal Home Loan Bank and Federal Reserve Bank stock | 115 | 35 | 150 | 8 | (127) | (119) |
| Loans [2]: | | | | | | |
| Commercial and industrial | (836) | 1,878 | 1,042 | 2,839 | (16,649) | (13,810) |
| Agricultural | (54) | (161) | (215) | (1,381) | (1,676) | (3,057) |
| Commercial real estate | (3,598) | 4,244 | 646 | 17,956 | (32,771) | (14,815) |
| Consumer | (1,253) | (318) | (1,571) | (636) | (5,764) | (6,400) |
| 1-4 family mortgages | (1,183) | (544) | (1,727) | (2,787) | (693) | (3,480) |
| Total loans, excluding covered loans | (6,924) | 5,099 | (1,825) | 15,991 | (57,553) | (41,562) |
| Covered loans | 15,783 | 83 | 15,866 | 1,419 | - | 1,419 |
| Total loans | 8,859 | 5,182 | 14,041 | 17,410 | (57,553) | (40,143) |
| Total interest income [2] | (16,795) | 565 | (16,230) | (6,796) | (63,227) | (70,023) |
| Savings deposits | 289 | (1,018) | (729) | (353) | (3,771) | (4,124) |
| NOW accounts | 350 | (1,557) | (1,207) | 535 | (7,070) | (6,535) |
| Money market deposits | 4,238 | (7,432) | (3,194) | 3,425 | (7,432) | (4,007) |
| Total interest-bearing transactional deposits | 4,877 | (10,007) | (5,130) | 3,607 | (18,273) | (14,666) |
| Time deposits | (233) | (21,687) | (21,920) | (5,945) | (25,834) | (31,779) |
| Total interest-bearing deposits | 4,644 | (31,694) | (27,050) | (2,338) | (44,107) | (46,445) |
| Borrowed funds | (7,265) | (2,037) | (9,302) | (6,953) | (17,670) | (24,623) |
| Subordinated debt | (4,705) | 356 | (4,349) | (1,510) | 187 | (1,323) |
| Total interest expense | (7,326) | (33,375) | (40,701) | (10,801) | (61,590) | (72,391) |
| Net interest income [2] | $ (9,469) | $ 33,940 | $ 24,471 | $ 4,005 | $ (1,637) | $ 2,368 |

[1]

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

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

**2010 Compared to 2009**

Average interest-earning assets were $7.2 billion for 2010, a decrease of $118.1 million, or 1.6%, from 2009. Average securities decreased $538.6 million in 2010 compared to 2009 as we reduced our securities portfolio in recent years by selling securities at a gain in the low interest rate environment. Average loans, excluding covered

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loans, were impacted by the charge-off of $147.1 million in loans in 2010. These decreases were partially offset by increases in covered assets acquired in FDIC-assisted transactions and short-term investments. We are maintaining an elevated level of short-term investments as we manage our liquidity within the current low-yield environment.

Tax-equivalent net interest margin improved 41 basis points to 4.13% for 2010 from 3.72% for 2009. The improvement reflected a 61 basis point decline in the average rate paid for interest-bearing liabilities, led by a 109 basis point decline in the average rate paid for time deposits. The reduction in rates paid on deposits reflected the decline in the yield curve over the period. Over the same period, maturities and proceeds from sales of securities, coupled with the acquisition of deposits from FDIC-assisted transactions, reduced the need for higher cost wholesale funds. As of December 31, 2010, our loan-to-deposit ratio was 78.3%, with 69.4% of our customer deposits consisting of demand, NOW, money market, and savings transactional accounts.

Our 2010 tax-equivalent net interest income increased $24.5 million compared to 2009. Interest expense declined $40.7 million, reflecting both a decline in total interest-bearing liabilities and the rates paid for these liabilities. Tax-equivalent interest income declined $16.2 million compared to 2009 due to a 14 basis point decline in tax-equivalent yield. The net result of these changes was an increase in tax-equivalent net interest income.

**2009 Compared to 2008**

Tax-equivalent net interest margin was 3.72% for 2009, up 11 basis points from 3.61% for 2008. The yield on interest-earning assets for 2009 declined 84 basis points compared to 2008, while our cost of funds declined 106 basis points compared to 2008.

Net interest margin for 2009 reflected our solid core deposit base and our ability to effectively manage our cost of funds. During the last half of 2009, we delevered our balance sheet by using proceeds from securities sales of $855.4 million and maturities to reduce our level of borrowed funds and time deposits. Interest rates began declining in September 2007 and continued through fourth quarter 2008, resulting in a reduction in interest rates for both fixed and floating interest rates on our loan portfolio in 2009. During 2009, we instituted interest rate floors on a portion of our loan portfolio that moderated the overall decline in loan yields and contributed to improved margins. The decline in interest-earning asset yields was more than compensated for by a shift in funding toward less expensive transactional deposits.

Tax-equivalent interest income declined $70.0 million for 2009 compared to 2008. The decrease in interest-earning assets reduced interest income by $6.8 million, while a decline in the average rate earned on interest-earning assets reduced interest income by $63.2 million. Interest expense for 2009 declined $72.4 million compared to 2008. The decrease in interest-bearing liabilities reduced interest expense by $10.8 million, and the shift from time deposits to less expensive wholesale borrowing, coupled with an overall decrease in the average rate paid on interest-bearing liabilities reduced interest expense by $61.6 million.

**Management s Outlook**

Our net interest margin performance in 2011 will depend, to a large extent, on stability of interest rates, the maintenance of transactional deposits at our current cost of funds, and our ability to redeploy excess cash from low-yield short-term investments to higher yielding loans.

We continue to use multiple interest rate scenarios to rigorously assess the direction and magnitude of changes in interest rates and their impact on net interest income. A description and analysis of our market risk and interest rate sensitivity profile and management policies is included in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of this Form 10-K.

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*Noninterest Income*

**Table 5**

**Noninterest Income Analysis**

(Dollar amounts in thousands)

| | Years ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010-2009 | 2009-2008 |
| Service charges on deposit accounts | $ 35,884 | $ 38,754 | $ 44,987 | (7.4) | (13.9) |
| Trust and investment advisory fees | 15,063 | 14,059 | 15,130 | 7.1 | (7.1) |
| Other service charges, commissions, and fees | 18,238 | 16,529 | 18,846 | 10.3 | (12.3) |
| Card-based fees [1] | 17,577 | 15,826 | 16,143 | 11.1 | (2.0) |
| Total fee-based revenues | 86,762 | 85,168 | 95,106 | 1.9 | (10.4) |
| BOLI [2] | 1,560 | 2,263 | (2,369) | (31.1) | (195.5) |
| Other income [3] | 2,180 | 2,590 | 2,819 | (15.8) | (8.1) |
| Total operating revenues | 90,502 | 90,021 | 95,556 | 0.5 | (5.8) |
| Trading gains (losses), net [4] | 1,530 | 2,542 | (5,938) | (39.8) | (142.8) |
| Gains on securities sales, net | 17,133 | 26,726 | 8,903 | (35.9) | 200.2 |
| Securities impairment losses | (4,917) | (24,616) | (44,514) | (80.0) | (44.7) |
| Gains on FDIC-assisted transactions | 4,303 | 13,071 | - | (67.1) | 100.0 |
| Gains on early extinguishment of debt | - | 15,258 | - | (100.0) | 100.0 |
| Total noninterest income | $ 108,551 | $ 123,002 | $ 54,007 | (11.7) | 127.8 |

(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 change in cash surrender value ( CSV ) of the policies, net of premiums paid. The change in CSV is attributable 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 the section Investment in Bank Owned Life Insurance and Note 1 of Notes to Consolidated Financial Statements in Item 8 of this Form 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) Trading gains (losses), net result from the change in 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. These changes are substantially offset by an adjustment to salaries and wages expense.

**2010 Compared to 2009**

Total noninterest income decreased 11.7% for 2010 compared to 2009. The decline from 2009 resulted from changes in gains realized from net securities sales, early extinguishment of debt, and FDIC-assisted transactions and the fair value adjustment related to our non-qualified deferred compensation plan, which is reflected in trading gains (losses), net.

Fee-based revenues, which comprise the majority of noninterest income, of $86.8 million for 2010 grew by 1.9% compared to 2009. Service charges on deposit accounts declined due primarily to lower overdraft and non-sufficient fund fees. However, this decline was more than offset by increases in other service charges, commissions, and fees (primarily merchant fee income), card-based fees, and trust and investment advisory fees.

The majority of the decline in service charges on deposit accounts resulted from a $2.5 million decline in fees charged to customers with insufficient funds. The decrease resulted from changes in Federal Reserve regulations that require customers to opt in, or affirmatively consent, to our overdraft services for ATM and one-time debit card transactions, before overdraft fees may be assessed on the account.

Trust and investment advisory fees improved from 2009 to 2010 primarily due to a $666.3 million, or 17.5%, increase in trust assets under management during this period. Approximately $102.7 million of the $666.3 million increase was attributable to managed assets acquired in an FDIC-assisted transaction.

Higher retail investment advisory fees and merchant processing fees drove the increase in other service charges, commissions, and fees from 2009 to 2010. Merchant processing fees improved 18.5%, and retail investment advisory fees increased 9.9% for 2010 compared to 2009.

Approximately half of the growth in card-based fees in 2010 resulted from the migration from multi-merchant networks to an exclusive MasterCard network in most areas, which drove higher transaction yields and incentives.

**2009 Compared to 2008**

Our total noninterest income increased $69.0 million for 2009 compared to 2008. The increase was driven largely by significantly higher net gains on securities, debt extinguishment, and an FDIC-assisted transaction, which offset declines in fee-based revenues.

Fee-based revenues decreased 10.4% for 2009 from 2008. This decrease reflected the impact of lower transaction volumes caused by reduced consumer spending. All major fee categories decreased in comparison to 2008.

Service charges on deposit accounts declined 13.9% for 2009 compared to 2008 due to lower transaction volumes caused by reduced consumer spending.

Other service charges, commissions, and fees declined 12.3% for 2009 compared to 2008. The decline was due to reduced merchant fees generated from processing consumer transactions and lower sales of third-party annuity and investment products.

In 2009, BOLI income was $2.3 million compared to a BOLI loss of $2.4 million for 2008. In fourth quarter 2008, management elected to accept lower market returns in order to reduce its risk to market volatility through investment in shorter-duration, lower-yielding money market instruments. See the section titled Investment in Bank Owned Life Insurance for a discussion of our investment in BOLI.

**Non-operating Revenues**

We recognized net securities gains and securities impairment losses for each period presented. For a discussion of these items, see the section titled Investment Portfolio Management.

For a discussion of the gains on FDIC-assisted transactions of $4.3 million for 2010 and $13.1 million for 2009, refer to the section titled Covered Assets. For a discussion of gains on early extinguishment of debt of $15.3 million for 2009, see the section titled, Funding and Liquidity Management.

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***Noninterest Expense***

**Table 6**

**Noninterest Expense Analysis**

(Dollar amounts in thousands)

| | Years ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010-2009 | 2009-2008 |
| Compensation expense: | | | | | |
| Salaries and wages | $ 94,361 | $ 82,640 | $ 77,074 | 14.2 | 7.2 |
| Retirement and other employee benefits | 20,017 | 23,908 | 22,836 | (16.3) | 4.7 |
| Total compensation expense | 114,378 | 106,548 | 99,910 | 7.3 | 6.6 |
| OREO expense: | | | | | |
| Write-downs of OREO | 23,367 | 12,584 | 1,261 | 85.7 | N/M |
| Losses on the sales of OREO, net | 17,113 | 5,970 | 305 | 186.6 | N/M |
| OREO operating expense, net [1] | 9,554 | 4,905 | 1,843 | 94.8 | 166.1 |
| Total OREO expense | 50,034 | 23,459 | 3,409 | 113.3 | 588.1 |
| FDIC premiums: | | | | | |
| FDIC special assessment | - | 3,500 | - | (100.0) | 100.0 |
| FDIC insurance premiums | 10,880 | 10,173 | 1,065 | 6.9 | 855.2 |
| Total FDIC premiums | 10,880 | 13,673 | 1,065 | (20.4) | N/M |
| Loan remediation costs | 11,020 | 7,458 | 2,569 | 47.8 | 190.3 |
| Other professional services | 11,883 | 8,338 | 8,329 | 42.5 | 0.1 |
| Total professional services | 22,903 | 15,796 | 10,898 | 45.0 | 44.9 |
| Net occupancy expense | 23,274 | 22,762 | 23,378 | 2.2 | (2.6) |
| Equipment expense | 8,944 | 8,962 | 9,956 | (0.2) | (10.0) |
| Technology and related costs | 11,070 | 8,987 | 7,429 | 23.2 | 21.0 |
| Advertising and promotions | 6,642 | 7,313 | 6,491 | (9.2) | 12.7 |
| Merchant card expense | 7,882 | 6,453 | 6,985 | 22.1 | (7.6) |
| Other expenses | 22,772 | 20,835 | 24,784 | 9.3 | (15.9) |
| Total noninterest expense | $ 278,779 | $ 234,788 | $ 194,305 | 18.7 | 20.8 |
| Average full-time equivalent employees | 1,790 | 1,766 | 1,824 | | |
| Efficiency ratio [2] | 58.84% | 57.86% | 53.49% | | |

N/M - Not meaningful.

(1) OREO operating expense, net, consists of real estate taxes, commissions on sales, insurance, and maintenance, net of any rental income.

(2) The efficiency ratio expresses noninterest expense, excluding OREO expense, as a percentage of tax-equivalent net interest income plus total fees and other income.

**2010 Compared to 2009**

Noninterest expense rose by $44.0 million for 2010 compared to 2009. The increase was attributed to higher losses and write-downs on OREO and increases in loan remediation costs (including costs to service certain assets acquired in FDIC-assisted transactions), other professional services from the valuation and integration of FDIC-acquired assets, and compensation expense. We recorded integration expenses associated with our FDIC-assisted transactions of $3.3 million in 2010.

The 14.2% increase in salaries and wages for 2010 compared to 2009 was driven by the addition of employees, primarily retail and commercial sales staff, from our three FDIC-assisted transactions, as well as standard merit pay increases and higher incentive and share-based compensation expense.

The 16.3% decline in retirement and other employee benefits for 2010 compared to 2009 resulted from reductions in the cost of pension and profit sharing plans. In 2010, certain pension actuarial assumptions were revised to better reflect current expectations and historical trends. The net impact of these revisions decreased pension expense by $3.1 million. The decline in expenses related to profit sharing plans resulted from a reduction in employer contributions. The decline in pension and profit sharing was partially offset by a $636,000 increase in payroll taxes.

Losses during 2010 on sales and write-downs of OREO properties increased substantially from 2009 and reflected continued weakness in the real estate market. For a discussion of sales of OREO properties, refer to the section titled Non-performing Assets. Costs associated with sales of OREO properties accounted for the increase in OREO operating expenses, net for 2010 compared to the prior year.

In May 2009, the FDIC levied a special assessment upon all insured depository institutions to rebuild the Deposit Insurance Fund ( DIF ). The Company s special assessment was $3.5 million in 2009. There were no special assessments in 2010.

The increase in loan remediation expenses for 2010 compared to 2009 primarily reflects higher costs incurred to remediate problems loans, particularly given the volume of problem loans, such as outside legal fees, appraisals, real estate tax redemptions, and utilities. The increase in other professional expenses also grew during 2010 from costs incurred to integrate and remediate covered loans acquired through FDIC-assisted transactions.

The majority of the 23.2% increase in technology and related costs for 2010 compared to 2009 was driven by system conversion costs related to FDIC-assisted transactions, as well as additional costs for servicing the newly acquired customers and higher monthly fees for improved network access. Likewise, the 2.2% increase in occupancy expense pertains to the cost of operating the new retail banking branches acquired during the year.

The decline of 9.2% in advertising and promotions expense in 2010 compared to 2009 resulted from a curtailment of spending with the exception of certain marketing expenses incurred in response to FDIC-assisted transaction activity in the Chicago banking market.

Merchant card expense increased from 2009 to 2010 in concert with the increased merchant fee income previously described. The increase in other expenses was spread across several categories, including freight and courier expense, educational expenses, and other intangibles amortization.

The efficiency ratio expresses noninterest expense, excluding OREO expense, as a percentage of tax-equivalent net interest income plus total fees, BOLI, and other income. The ratio increased from 57.86% for 2009 to 58.84% for 2010, resulting primarily from the increase in staffing and professional expenses incurred to remediate problem assets.

**2009 Compared to 2008**

Noninterest expense increased 20.8% for 2009 compared to 2008. The increase was driven by higher loan remediation costs, including costs associated with maintaining OREO, higher FDIC insurance premiums (including a special deposit premium assessed by the FDIC during second quarter 2009 of $3.5 million), and higher compensation expense primarily related to the market adjustment for the Company s non-qualified deferred compensation plan.

Salaries and wages increased in 2009 compared to 2008 due to an increase in the obligation to participants enrolled in deferred compensation plans resulting from changes in the fair value of trading securities held on

behalf of plan participants. Such increases were partially offset by declines in incentive compensation and share-based compensation expense. The 4.7% increase in retirement and other employee benefits for 2009 compared to 2008 resulted from an increase in pension plan expense.

The 21.0% increase in technology and related costs from 2008 resulted from an upgrade of technology for the delivery of voice communications over networks such as the Internet. This investment in technology provided us with a much more cost-effective means of communicating and transferring data. This cost also provided a savings in telephone expense, which is included in other expenses. The remaining variance in technology and related costs resulted from standard contractual increases.

The decline in other expenses for 2009 compared to 2008 was spread over various noninterest expense categories including freight and courier expense, telephone, supplies, and amortization expense.

***Income Taxes***

Our provision for income taxes includes both federal and state income tax expense. An analysis of the provision for income taxes for the periods 2008 through 2010 are detailed in the following table.

**Table 7**

**Income Tax Benefit Analysis**

(Dollar amounts in thousands)

| | Years ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| (Loss) income before income tax benefit | $ (38,228) | $ (75,926) | $ 36,045 |
| Income tax benefit: | | | |
| Federal income tax benefit | $ (23,821) | $ (39,106) | $ (2,349) |
| State income tax benefit | (4,723) | (11,070) | (10,942) |
| Total income tax benefit | $ (28,544) | $ (50,176) | $ (13,291) |

Federal income tax benefit is primarily influenced by the amount of tax-exempt income derived from investment securities and BOLI in relation to pre-tax loss/income. State income tax benefit is influenced by state tax rules related to consolidated/combined reporting and sourcing of income and expense.

Income tax benefits totaled $28.5 million in 2010 and $50.2 million in 2009. The decrease in income tax benefits from 2009 to 2010 was primarily attributable to a decrease in pre-tax loss in 2010 and the recording of $5.4 million in state income tax benefits in 2009.

The increase in income tax benefits from 2008 to 2009 was primarily attributable to a decrease in pre-tax income in 2009. This effect was partially offset by a decrease in state tax-exempt income attributable to changes in Illinois tax law effective in 2009.

As of December 31, 2010, net deferred tax assets totaled $113.4 million. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. Management has determined that it is more likely than not that deferred tax assets will be fully realized through carryback to taxable income in prior years, future reversals of existing deferred tax liabilities, and future taxable income.

Our accounting policies underlying the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Notes 1 and 15 to the Consolidated Financial Statements in Item 8 of this Form 10-K. Income tax expense and benefits recorded due to changes in uncertain tax positions are also described in Note 15.

**FINANCIAL CONDITION**

**INVESTMENT PORTFOLIO MANAGEMENT**

Securities that we have the ability and intent 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 unrealized gains and losses recorded in other noninterest income. Our trading securities relate to 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 insulate net interest income against the impact of changes in interest rates.

We adjust the size and composition of our securities portfolio according to 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 provides a valuation summary of our investment portfolio.

**Table 8**

**Investment Portfolio Valuation Summary**

(Dollar amounts in thousands)

| | As of December 31, 2010 | | | As of December 31, 2009 | | | As of December 31, 2008 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair Value | Amortized Cost | % of Total | Fair Value | Amortized Cost | % of Total | Fair Value | Amortized Cost | % of Total |
| **Available-for-Sale** | | | | | | | | | |
| U.S. Treasury securities | $ - | $ - | - | $ - | $ - | - | $ 1,041 | $ 1,039 | 0.1 |
| U.S. agency securities | 17,886 | 18,000 | 1.5 | 756 | 756 | - | - | - | - |
| Collateralized mortgage obligations ( CMOs ) | 379,589 | 377,692 | 32.3 | 307,921 | 299,920 | 21.8 | 698,839 | 694,285 | 30.1 |
| Other mortgage-backed securities | 106,451 | 100,780 | 8.6 | 249,282 | 239,567 | 17.5 | 518,265 | 504,918 | 21.9 |
| Municipal securities | 503,991 | 512,063 | 43.7 | 651,680 | 649,269 | 47.3 | 906,747 | 907,036 | 39.4 |
| Collateralized debt obligations ( CDOs ) | 14,858 | 49,695 | 4.2 | 11,728 | 54,359 | 4.0 | 42,086 | 60,406 | 2.6 |
| Corporate debt securities | 32,345 | 29,936 | 2.6 | 37,551 | 36,571 | 2.7 | 33,325 | 35,731 | 1.5 |
| Equity securities | 2,682 | 2,134 | 0.2 | 7,842 | 7,667 | 0.6 | 15,883 | 16,089 | 0.7 |
| Total available-for-sale | 1,057,802 | 1,090,300 | 93.1 | 1,266,760 | 1,288,109 | 93.9 | 2,216,186 | 2,219,504 | 96.3 |
| **Held-to-Maturity** | | | | | | | | | |
| Municipal securities | 82,525 | 81,320 | 6.9 | 84,496 | 84,182 | 6.1 | 84,592 | 84,306 | 3.7 |
| Total securities | $ 1,140,327 | $ 1,171,620 | 100.0 | $ 1,351,256 | $ 1,372,291 | 100.0 | $ 2,300,778 | $ 2,303,810 | 100.0 |

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| | As of December 31, 2010 | | | As of December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Effective Duration [1] | Average Life [2] | Yield to Maturity | Effective Duration [1] | Average Life [2] | Yield to Maturity |
| **Available-for-Sale** | | | | | | |
| U.S. agency securities | 1.91% | &nb | | | | |