

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

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

\_\_\_\_\_  
FORM 10-Q  
(Mark One)

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

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-10967

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-3161078  
(IRS Employer Identification No.)

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

\_\_\_\_\_  
Registrant's telephone number, including area code: (630) 875-7450  
\_\_\_\_\_

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

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

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

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

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

FIRST MIDWEST BANCORP, INC.

FORM 10-Q

TABLE OF CONTENTS

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

## GLOSSARY OF TERMS

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

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

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

#### AVAILABLE INFORMATION

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

- Certificate of Incorporation,
  - Company By-laws,
- Charters for our Audit, Compensation, and Nominating and Corporate Governance Committees,
  - Related Person Transaction Policies and Procedures,
  - Corporate Governance Guidelines,
- Code of Ethics and Standards of Conduct (the “Code”), which governs our directors, officers, and employees,
  - 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](mailto:investor.relations@firstmidwest.com).

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

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

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

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

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

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

## PART 1. FINANCIAL INFORMATION (Unaudited)

## ITEM 1. FINANCIAL STATEMENTS

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

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



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

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

(\$37.50 per preferred share)

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

See accompanying notes to  
unaudited condensed consolidated  
financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

### Recently Adopted Accounting Guidance

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

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

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

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



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

#### Recently Issued Accounting Guidance

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

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

### 3. SECURITIES

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



Securities Portfolio  
(Dollar amounts in thousands)

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

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

Remaining Contractual Maturity of Securities

(Dollar amounts in thousands)

|  | September 30, 2011                       |
|--|--|
|  | Available-for-Sale      Held-to-Maturity |

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

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

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

Securities Gains (Losses)  
(Dollar amounts in thousands)

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

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

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

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

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

|  | Quarter Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|--------------------------------|-----------|------------------------------------|-----------|
|  | 2011                           | 2010      | 2011                               | 2010      |
|  | \$ 35,589                      | \$ 34,736 | \$ 35,589                          | \$ 30,839 |

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

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

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

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

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

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

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

assistance of a structured credit valuation firm.

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

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



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

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

- (1) Deferrals and defaults are provided net of recoveries. No recovery is assumed for collateral that has already defaulted. For deferring collateral, the Company assumes a recovery rate of 10% of par for banks, thrifts, and other depository institutions and 15% of par for insurance companies.
- (2) Excess subordination represents additional defaults in excess of current defaults that the CDO can absorb before the security experiences any credit impairment. The excess subordination percentage is calculated by dividing the amount of potential additional loss that can be absorbed (before the receipt of all expected future principal and interest payments is affected) by the total balance of performing collateral. Even with excess subordination, the CDO could experience an OTTI charge if future deterioration of underlying collateral in excess of current excess subordination is anticipated.
- (3) Characteristics and metrics are not reported for this CDO since the security had an amortized cost and fair value of zero as of September 30, 2011.

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

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

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

## 4. LOANS

Loan Portfolio  
(Dollar amounts in thousands)

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

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

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

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

## 5. COVERED ASSETS

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

Covered Assets  
(Dollar amounts in thousands)

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

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

(2) These are loans that did not have evidence of impairment on the date of acquisition.

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

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

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

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

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

Changes in FDIC Indemnification Asset  
(Dollar amounts in thousands)

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

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

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

Changes in Accretable Yield  
(Dollar amounts in thousands)

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

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

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

### Past Due and Non-accrual Loans

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



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

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



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

## Allowance for Credit Losses

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

## Allowance for Credit Losses

(Dollar amounts in thousands)

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

## Allowance for Credit Losses by Portfolio Segment

(Dollar amounts in thousands)

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

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

## Impaired Loans

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

Impaired Loans  
(Dollar amounts in thousands)

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

(1) These impaired loans require a valuation allowance because the present value of expected future cash flows or the estimated value of the related collateral less estimated selling costs is less than the recorded investment in the loans.

(2) No specific allowance for credit losses is allocated to these loans since they are deemed to be sufficiently collateralized or had charge-offs. However, while each component of the allowance for credit losses is determined separately, the entire balance is available for the entire loan portfolio.

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

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

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

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

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

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

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

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

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

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

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

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

(1)Recorded using the cash basis of accounting.



## TDRs

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

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

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

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

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

(1)These loans are still accruing interest as of September 30, 2011.

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

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

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

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

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

#### Credit Quality Indicators

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

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

|                                | Pass         | Special<br>Mention (1) | Substandard /<br>Accrual (2) | Substandard /<br>Non-accrual (3) | Total        |
|--------------------------------|--------------|------------------------|------------------------------|----------------------------------|--------------|
| September 30, 2011             |              |                        |                              |                                  |              |
| Commercial and industrial      | \$ 1,318,968 | \$ 75,779              | \$ 50,780                    | \$ 30,507                        | \$ 1,476,034 |
| Agricultural                   | 236,276      | 11,183                 | -                            | 2,977                            | 250,436      |
| Commercial real estate:        |              |                        |                              |                                  |              |
| Office, retail, and industrial | 1,087,461    | 108,694                | 42,432                       | 24,728                           | 1,263,315    |
| Multi-family                   | 277,658      | 5,847                  | 15,612                       | 18,196                           | 317,313      |
| Residential construction       | 50,220       | 29,524                 | 15,628                       | 20,911                           | 116,283      |
| Commercial construction        | 89,462       | 31,966                 | 8,789                        | 15,672                           | 145,889      |
| Other commercial real estate   | 732,930      | 81,402                 | 17,182                       | 45,727                           | 877,241      |
| Total commercial real estate   | 2,237,731    | 257,433                | 99,643                       | 125,234                          | 2,720,041    |
| Total corporate loans          | \$ 3,792,975 | \$ 344,395             | \$ 150,423                   | \$ 158,718                       | \$ 4,446,511 |
| December 31, 2010              |              |                        |                              |                                  |              |
| Commercial and industrial      | \$ 1,303,142 | \$ 83,259              | \$ 29,414                    | \$ 50,088                        | \$ 1,465,903 |
| Agricultural                   | 209,317      | 15,667                 | 275                          | 2,497                            | 227,756      |
| Commercial real estate:        |              |                        |                              |                                  |              |
| Office, retail, and industrial | 1,026,124    | 123,800                | 34,116                       | 19,573                           | 1,203,613    |
| Multi-family                   | 307,845      | 20,643                 | 15,171                       | 6,203                            | 349,862      |
| Residential construction       | 57,209       | 35,950                 | 29,409                       | 52,122                           | 174,690      |
| Commercial construction        | 85,305       | 35,750                 | 14,732                       | 28,685                           | 164,472      |
| Other commercial real estate   | 697,971      | 89,247                 | 28,534                       | 40,605                           | 856,357      |
| Total commercial real estate   | 2,174,454    | 305,390                | 121,962                      | 147,188                          | 2,748,994    |
| Total corporate loans          | \$ 3,686,913 | \$ 404,316             | \$ 151,651                   | \$ 199,773                       | \$ 4,442,653 |
| September 30, 2011             |              |                        |                              |                                  |              |
| Home equity                    |              |                        | Performing                   | Non-accrual                      | Total        |
| 1-4 family mortgages           |              |                        | \$ 417,197                   | \$ 7,789                         | \$ 424,986   |
| Installment loans              |              |                        | 184,939                      | 4,648                            | 189,587      |
| Total consumer loans           |              |                        | \$ 645,512                   | \$ 12,471                        | \$ 657,983   |
| December 31, 2010              |              |                        |                              |                                  |              |
| Home equity                    |              |                        | \$ 437,295                   | \$ 7,948                         | \$ 445,243   |
| 1-4 family mortgages           |              |                        | 156,988                      | 3,902                            | 160,890      |
| Installment loans              |              |                        | 51,615                       | 159                              | 51,774       |
| Total consumer loans           |              |                        | \$ 645,898                   | \$ 12,009                        | \$ 657,907   |

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

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

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

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

## 7. EARNINGS PER COMMON SHARE

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

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

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

## 8. INCOME TAXES

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

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

N/M – Not meaningful.

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

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

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

## 9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

## 10. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

### Credit Commitments and Guarantees

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

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

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



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

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

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

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

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

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

#### Legal Proceedings

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

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



## 11. FAIR VALUE

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

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than level 1 prices, such as quoted prices for similar instruments, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

## Assets and Liabilities Measured at Fair Value

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

Fair Value Measurements  
(Dollar amounts in thousands)

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

Refer to the following page for footnotes.

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

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

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

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

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

#### Valuation Methodologies

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

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

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

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

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

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

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

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

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

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



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

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

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

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

(1) Included in other service charges, commissions, and fees in the Condensed Consolidated Statements of Income and relate to mortgage servicing rights still held at the end of the period.

(2) Principally reflects changes in prepayment speed assumptions.

(3) Primarily represents changes in expected cash flows over time due to payoffs and paydowns.

(4) These loans are serviced for and owned by third parties and are not included in the Condensed Consolidated Statements of Financial Condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Fair Value Disclosure of Other Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Instruments  
(Dollar amounts in thousands)

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

## 12. SUBSEQUENT EVENTS

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

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

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



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

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

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

### PERFORMANCE OVERVIEW

#### General Overview

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

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

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

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

N/M – Not meaningful.

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

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

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

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

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

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

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

## EARNINGS PERFORMANCE

### Net Interest Income

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

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

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

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

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



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

- (1) For purposes of this table, changes which are not due solely to volume changes or rate changes are allocated to such categories on the basis of the percentage relationship of each to the sum of the two.
- (2) Interest income and yields are presented on a tax-equivalent basis, assuming a federal income tax rate of 35%.
- (3) Covered interest-earning assets consist of loans acquired through FDIC-assisted transactions and the related FDIC indemnification asset. For additional discussion, please refer to the section titled "Covered Assets."

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

|  | Nine Months Ended September 30, |                |                       |                     |                |                       | Attribution of Change<br>in Net Interest Income (1) |                |              |
|--|---------------------------------|----------------|-----------------------|---------------------|----------------|-----------------------|---|----------------|--------------|
|  | 2011                            |                |                       | 2010                |                |                       | Volume  | Yield/<br>Rate | Total        |
|  | Average<br>Balance              | Interest       | Yield/<br>Rate<br>(%) | Average<br>Balance  | Interest       | Yield/<br>Rate<br>(%) |   |                |              |
| <b>Assets:</b>   |                                 |                |                       |                     |                |                       |   |                |              |
| <b>Federal funds sold and other short-term investments</b> |                                 |                |                       |                     |                |                       |   |                |              |
|  | \$ 592,995                      | \$ 1,096       | 0.25                  | \$ 265,843          | \$ 547         | 0.28                  | \$ 599  | \$ (50)        | \$ 549       |
| Trading securities   | 15,961                          | 76             | 0.63                  | 13,841              | 82             | 0.79                  | 22  | (28)           | (6)          |
| Investment securities (2)                                  | 1,124,360                       | 37,585         | 4.46                  | 1,229,920           | 51,054         | 5.53                  | (4,121)   | (9,348)        | (13,469)     |
| <b>FHLB and Federal Reserve Bank stock</b>                 |                                 |                |                       |                     |                |                       |   |                |              |
|  | 59,745                          | 1,028          | 2.29                  | 59,759              | 1,002          | 2.24                  | -   | 26             | 26           |
| <b>Loans, excluding covered loans (2)</b>                  |                                 |                |                       |                     |                |                       |   |                |              |
|  | 5,106,955                       | 191,331        | 5.01                  | 5,203,197           | 196,422        | 5.05                  | (3,879)   | (1,212)        | (5,091)      |
| <b>Covered interest-earning assets (3)</b>                 |                                 |                |                       |                     |                |                       |   |                |              |
|  | 417,120                         | 22,117         | 7.09                  | 270,681             | 9,854          | 4.87                  | 6,651   | 5,612          | 12,263       |
| <b>Total loans</b>   | <b>5,524,075</b>                | <b>213,448</b> | <b>5.17</b>           | <b>5,473,878</b>    | <b>206,276</b> | <b>5.04</b>           | <b>2,772</b>  | <b>4,400</b>   | <b>7,172</b> |
| <b>Total interest-earning assets (2)</b>                   |                                 |                |                       |                     |                |                       |   |                |              |
|  | 7,317,136                       | 253,233        | 4.63                  | 7,043,241           | 258,961        | 4.91                  | (728)   | (5,000)        | (5,728)      |
| <b>Cash and due from banks</b>                             |                                 |                |                       |                     |                |                       |   |                |              |
|  | 120,902                         |                |                       | 149,763             |                |                       |   |                |              |
| <b>Allowance for loan losses</b>                           |                                 |                |                       |                     |                |                       |   |                |              |
|  | (146,512)                       |                |                       | (153,789)           |                |                       |   |                |              |
| <b>Other assets</b>  |                                 |                |                       |                     |                |                       |   |                |              |
|  | 874,242                         |                |                       | 887,677             |                |                       |   |                |              |
| <b>Total assets</b>  | <b>\$ 8,165,768</b>             |                |                       | <b>\$ 7,926,892</b> |                |                       |   |                |              |
| <b>Liabilities and Stockholders' Equity:</b>               |                                 |                |                       |                     |                |                       |   |                |              |
| <b>Savings deposits</b>                                    |                                 |                |                       |                     |                |                       |   |                |              |
|  | \$ 928,862                      | 1,347          | 0.19                  | \$ 798,871          | 1,804          | 0.30                  | 382   | (839)          | (457)        |
| <b>NOW accounts</b>  |                                 |                |                       |                     |                |                       |   |                |              |
|  | 1,100,676                       | 915            | 0.11                  | 1,085,177           | 1,526          | 0.19                  | 22  | (633)          | (611)        |
| <b>Money market deposits</b>                               |                                 |                |                       |                     |                |                       |   |                |              |
|  | 1,227,559                       | 2,345          | 0.26                  | 1,164,665           | 4,949          | 0.57                  | 283   | (2,887)        | (2,604)      |
| <b>Time deposits</b>                                       |                                 |                |                       |                     |                |                       |   |                |              |
|  | 1,826,732                       | 16,687         | 1.22                  | 1,965,436           | 20,941         | 1.42                  | (1,408)   | (2,846)        | (4,254)      |
| <b>Borrowed funds</b>                                      |                                 |                |                       |                     |                |                       |   |                |              |
|  | 270,037                         | 2,073          | 1.03                  | 385,501             | 2,556          | 0.89                  | (1,019)   | 536            | (483)        |
| <b>Subordinated debt</b>                                   |                                 |                |                       |                     |                |                       |   |                |              |
|  | 137,747                         | 6,845          | 6.64                  | 137,738             | 6,845          | 6.64                  | -   | -              | -            |
| <b>Total interest-bearing liabilities</b>                  |                                 |                |                       |                     |                |                       |   |                |              |
|  | 5,491,613                       | 30,212         | 0.74                  | 5,537,388           | 38,621         | 0.93                  | (1,740)   | (6,669)        | (8,409)      |

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|  |              |      |              |      |          |          |          |  |
|--|--------------|------|--------------|------|----------|----------|----------|--|
| Demand deposits                            | 1,459,875    |      | 1,182,990    |      |          |          |          |  |
| Other liabilities                          | 78,973       |      | 61,047       |      |          |          |          |  |
| Stockholders' equity - common              | 942,307      |      | 952,467      |      |          |          |          |  |
| Stockholders' equity - preferred           | 193,000      |      | 193,000      |      |          |          |          |  |
| Total liabilities and stockholders' equity | \$ 8,165,768 |      | \$ 7,926,892 |      |          |          |          |  |
| Net interest income/margin (2)             | \$ 223,021   | 4.07 | \$ 220,340   | 4.18 | \$ 1,012 | \$ 1,669 | \$ 2,681 |  |
| Net interest income (GAAP)                 | \$ 212,542   |      | \$ 207,770   |      |          |          |          |  |
| Tax equivalent adjustment                  | 10,479       |      | 12,570       |      |          |          |          |  |
| Tax-equivalent net interest income         | \$ 223,021   |      | \$ 220,340   |      |          |          |          |  |

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

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

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

Average interest-earning assets for third quarter 2011 rose \$117.3 million, or 1.6%, from third quarter 2010. For the first nine months of 2011, average interest-earning assets grew \$273.9 million, or 3.9%, compared to the same period in 2010. The increase in average interest-earning assets for both periods in 2011 compared to the same period in 2010 primarily resulted from the short-term investment of additional customer deposits and additional assets acquired in an FDIC-assisted transaction in August 2010.

Third quarter 2011 tax-equivalent net interest income decreased \$336,000, or 0.5%, compared to third quarter 2010. Tax-equivalent interest income declined \$2.8 million due to a 23 basis point decline in tax-equivalent yield discussed below.

Interest expense declined \$2.5 million, as we used proceeds from securities sales and maturities to reduce higher-costing time deposits and borrowed funds.

For the first nine months of 2011, tax-equivalent net interest income increased \$2.7 million, or 1.2%, compared to the first nine months of 2010 due to the impact of using proceeds from securities sales and maturities and transactional deposits acquired from FDIC-assisted transactions to reduce higher-costing time deposits and borrowed funds.

Tax-equivalent net interest margin for third quarter 2011 was 3.97%, a decline of 8 basis points from third quarter 2010, primarily reflecting the impact of the growth in deposits invested in low-yielding short-term investments. The reduction in margin resulted from a 23 basis point decline in the average yield on interest-earning assets, primarily reflecting the impact of the growth in deposits invested in low-yielding short-term investments. This effect was partially offset by a 14 basis point decline in the average rate paid for interest-bearing liabilities, due largely to an 8 basis point decline in the average rate paid for time deposits.

For the year-to-date periods, tax-equivalent net interest margin declined to 4.07% for the nine months ended September 30, 2011, a reduction of 11 basis points from the 2010 period, as a result of the same factors discussed above.

Interest earned on covered loans is generally recognized through the accretion of the discount taken on expected future cash flows. The increases in the yields on covered interest-earning assets for the quarter and nine-month periods ended September 30, 2011 compared to the same periods in 2010 were due to adjustments in accretable income based upon (i) revised cash flow estimates subsequent to acquisition and (ii) actual cash realized in excess of estimates upon final settlement of certain covered loans.

We 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 3, "Quantitative and Qualitative Disclosures About Market Risk," of this Form 10-Q.

## Noninterest Income

Table 4  
Noninterest Income Analysis  
(Dollar amounts in thousands)

|  | Quarters Ended<br>September 30, |           |             | Nine Months Ended<br>September 30, |           |             |
|--|---------------------------------|-----------|-------------|------------------------------------|-----------|-------------|
|  | 2011                            | 2010      | %<br>Change | 2011                               | 2010      | %<br>Change |
| Service charges on deposit accounts          | \$ 10,215                       | \$ 9,249  | 10.4        | \$ 27,922                          | \$ 26,682 | 4.6         |
| Trust and investment advisory fees           | 3,946                           | 3,728     | 5.8         | 12,180                             | 11,023    | 10.5        |
| Other service charges, commissions, and fees | 5,325                           | 4,932     | 8.0         | 15,601                             | 13,732    | 13.6        |
| Card-based fees (1)                          | 4,931                           | 4,547     | 8.4         | 14,622                             | 12,937    | 13.0        |
| Total fee-based revenues                     | 24,417                          | 22,456    | 8.7         | 70,325                             | 64,374    | 9.2         |
| Bank-owned life insurance ("BOLI")           |                                 |           |             |                                    |           |             |
| income (2)                                   | 1,479                           | 267       | 453.9       | 1,990                              | 864       | 130.3       |
| Other income (3)                             | 598                             | 533       | 12.2        | 2,077                              | 1,729     | 20.1        |
| Total operating revenues                     | 26,494                          | 23,256    | 13.9        | 74,392                             | 66,967    | 11.1        |
| Trading (losses) gains, net (4)              | (2,352)                         | 1,121     | (309.8)     | (1,610)                            | 560       | (387.5)     |
| Gains on securities sales, net (5)           | 626                             | 7,340     | (91.5)      | 2,697                              | 15,415    | (82.5)      |
| Securities impairment losses (5)             | (177)                           | (964)     | (81.6)      | (177)                              | (4,861)   | (96.4)      |
| Gain on FDIC-assisted transaction (6)        | -                               | -         | -           | -                                  | 4,303     | (100.0)     |
| Total noninterest income                     | \$ 24,591                       | \$ 30,753 | (20.0)      | \$ 75,302                          | \$ 82,384 | (8.6)       |

(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 attributed to earnings or losses credited to the policies based on investments made by the insurer. For a further discussion of our investment in BOLI, see Note 1 to the Consolidated Financial Statements of our 2010 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 (losses) gains, 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.

- (5) For a discussion of these items, see the section titled “Investment Portfolio Management” elsewhere in this report.
- (6) The gain on FDIC-assisted transaction relates to a second quarter 2010 event in which we acquired the majority of the assets of a financial institution in an FDIC-assisted transaction.

Total noninterest income decreased 20.0% for third quarter 2011 and 8.6% for the first nine months of 2011 compared to the same periods in 2010. The decrease reflects lower net securities gains and trading losses and a gain on an FDIC-assisted transaction in the 2010 year-to-date period, which more than offset increases in operating revenues.

Fee-based revenues for third quarter 2011 rose 8.7% compared to third quarter 2010, and fee-based revenues for the first nine months of 2011 grew 9.2% from the same period in 2010 as a result of increases in all categories for both periods.

The growth in service charges for the quarter and nine-month periods ended September 30, 2011 compared to the same periods in 2010 was due primarily to a combination of higher volumes of non-sufficient-funds (“NSF”) fees and market-driven pricing increases.

Average trust assets under management for the nine months ended September 30, 2011 totaled \$4.5 billion, a \$452.1 million increase from the nine months ended September 30, 2010, with such growth derived equally from improved equity market performance and new sales initiatives. The increase in average trust assets under management fueled the year-over-year growth in trust and investment advisory fees from both prior periods presented.

Increased merchant fees, miscellaneous loan fees, and investment revenue led to the increase in other service charges, commissions, and fees from both prior periods presented. The year-over-year increase in merchant fees was due primarily to a volume increase resulting from customers acquired in an FDIC-assisted transaction.

We experienced continued growth in card-based fees for both periods resulting from both greater volumes and higher average rates per transaction. The increase in rates earned on card-based fees resulted from the migration from multi-merchant networks to an exclusive MasterCard network in most areas, which drove higher transaction yields and incentives.

BOLI income increased compared to both prior periods presented from the receipt of life insurance settlements of \$1.2 million.

#### Noninterest Expense

Table 5  
Noninterest Expense Analysis  
(Dollar amounts in thousands)

|  | Quarters Ended<br>September 30, |           |             | Nine Months Ended<br>September 30, |            |             |
|--|---------------------------------|-----------|-------------|------------------------------------|------------|-------------|
|  | 2011                            | 2010      | %<br>Change | 2011                               | 2010       | %<br>Change |
| Compensation expense:  |                                 |           |             |                                    |            |             |
| Salaries and wages   | \$ 22,957                       | \$ 24,562 | (6.5)       | \$ 74,115                          | \$ 67,844  | 9.2         |
| Employee benefits  | 5,930                           | 5,364     | 10.6        | 18,553                             | 15,506     | 19.7        |
| Total compensation expense   | 28,887                          | 29,926    | (3.5)       | 92,668                             | 83,350     | 11.2        |
| OREO expense, net:   |                                 |           |             |                                    |            |             |
| Write-downs of OREO  | 674                             | 5,800     | (88.4)      | 3,309                              | 11,410     | (71.0)      |
| Losses on the sales of OREO, net (1)   | 1,937                           | 2,465     | (21.4)      | 4,952                              | 13,658     | (63.7)      |
| OREO operating expense, net (2)  | 1,563                           | 1,312     | 19.1        | 5,067                              | 7,146      | (29.1)      |
| Total OREO expense   | 4,174                           | 9,577     | (56.4)      | 13,328                             | 32,214     | (58.6)      |
| Professional services:   |                                 |           |             |                                    |            |             |
| Loan remediation costs   | 4,638                           | 2,817     | 64.6        | 10,364                             | 8,690      | 19.3        |
| Other professional services  | 2,933                           | 3,370     | (13.0)      | 7,966                              | 9,689      | (17.8)      |
| Total professional services  | 7,571                           | 6,187     | 22.4        | 18,330                             | 18,379     | (0.3)       |
| Net occupancy expense  | 5,944                           | 6,092     | (2.4)       | 18,409                             | 17,789     | 3.5         |
| Equipment expense  | 2,213                           | 2,234     | (0.9)       | 6,863                              | 6,513      | 5.4         |
| Technology and related costs   | 2,709                           | 2,593     | 4.5         | 8,029                              | 7,861      | 2.1         |
| FDIC insurance premiums  | 1,799                           | 2,835     | (36.5)      | 6,232                              | 7,913      | (21.2)      |
| Advertising and promotions   | 2,502                           | 1,473     | 69.9        | 4,959                              | 5,005      | (0.9)       |
| Merchant card expense  | 2,315                           | 2,023     | 14.4        | 6,794                              | 5,669      | 19.8        |
| Other expenses   | 5,767                           | 5,837     | (1.2)       | 18,815                             | 17,012     | 10.6        |
| Total noninterest expense  | \$ 63,881                       | \$ 68,777 | (7.1)       | \$ 194,427                         | \$ 201,705 | (3.6)       |
| Total noninterest expense, excluding losses on sales and write-downs of OREO |                                 |           |             |                                    |            |             |
|  | \$ 61,270                       | \$ 60,512 | 1.3         | \$ 186,166                         | \$ 176,637 | 5.4         |
|  | 1,833                           | 1,884     | (2.7)       | 1,841                              | 1,792      | 2.7         |

Full-time equivalent employees

|                      |        |        |        |        |
|----------------------|--------|--------|--------|--------|
| Efficiency ratio (3) | 60.27% | 59.91% | 60.95% | 58.76% |
|----------------------|--------|--------|--------|--------|

- (1) For a discussion of sales of OREO properties, refer to the section titled “Non-performing assets.”
- (2) OREO operating expense, net, consists of real estate taxes, commissions on sales, insurance, and maintenance, net of any rental income.
- (3) The efficiency ratio expresses noninterest expense, excluding OREO expense, as a percentage of tax-equivalent net interest income plus total fees and other income.

Total noninterest expense for third quarter 2011 decreased 7.1% from third quarter 2010. For the first nine months of 2011, noninterest expense decreased 3.6% from the same period in 2010. Excluding losses on sales and write-downs of OREO, total noninterest expense was up 1.3% for the current quarter and 5.4% for the current year-to-date period compared to the same periods in 2010.

The decrease in salaries and wages from third quarter 2010 to third quarter 2011 is primarily attributed to a decline in the obligations to participants in deferred compensation plans resulting from changes in the fair value of trading securities held



on behalf of plan participants. The increase in salaries and wages for the nine months ended September 30, 2011 compared to the same 2010 period resulted from additional staff employed through a third quarter 2010 FDIC-assisted transaction, the expansion of commercial sales staff, and annual merit increases, partially offset by the decline in participant benefit obligations. The variances in employee benefits for the periods presented were impacted by changes in overall staffing levels.

OREO expenses were lower in 2011 due to reduced write-downs and losses on sales of OREO as well as lower operating expenses incurred on declining OREO balances.

Loan remediation costs rose compared to both prior periods presented due to an increase in real estate taxes paid to preserve our rights to collateral associated with problem loans as well as higher legal fees incurred to remediate problem credits.

Additional property tax expense resulting from higher assessments and costs associated with operating branches acquired through FDIC-assisted transactions accounted for the increase in occupancy and equipment expense for the nine months ended September 30, 2011 compared to the same period in 2010.

FDIC premiums decreased for the 2011 periods compared to the same periods in 2010 primarily due to a change in regulatory requirements for calculating the premium.

Third quarter 2011 advertising expenses related to newspaper/print advertising, direct mail advertising, and billboard advertising were elevated compared to third quarter 2010. Overall, marketing expenses for full year 2011 are expected to be in line with previous years.

The increases in merchant card expense for both periods presented were due primarily to higher cardholder expenses driven by higher transaction volumes, along with costs inherited from an FDIC-assisted transaction. The increase in other noninterest expense for the nine months ended September 30, 2011 compared to the same 2010 period was due primarily to higher miscellaneous losses.

Included in noninterest expense for the 2010 periods are integration costs associated with FDIC-assisted transactions of \$847,000 for third quarter 2010 and \$2.7 million for the nine months ended September 30, 2010.

#### Income Taxes

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 of our 2010 10-K.

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

Income tax expense was \$1.7 million for third quarter 2011, compared to an income tax benefit of \$4.0 million for third quarter 2010. Income tax expense was \$4.6 million for the nine months ended September 30, 2011 compared to an income tax benefit of \$3.5 million for the nine months ended September 30, 2010. The increases resulted from an increase in pre-tax income in the 2011 periods compared to the same periods in the prior year, as well as decreases in tax-exempt income and the impact of the Illinois tax law change described below.

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

## 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 table provides a valuation summary of our investment portfolio.

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

|  | September 30, 2011  |                           |                     |                           | December 31, 2010   |                           |                     |                           |
|--|---------------------|---------------------------|---------------------|---------------------------|---------------------|---------------------------|---------------------|---------------------------|
|  | Fair Value          | Unrealized Gains (Losses) | Amortized Cost      | % of Total Amortized Cost | Fair Value          | Unrealized Gains (Losses) | Amortized Cost      | % of Total Amortized Cost |
| <b>Available-for-Sale</b>                    |                     |                           |                     |                           |                     |                           |                     |                           |
| U.S. agency securities                       | \$ 5,103            | \$ 12                     | \$ 5,091            | 0.5                       | \$ 17,886           | \$ (114)                  | \$ 18,000           | 1.5                       |
| Collateralized mortgage obligations (“CMOs”) | 337,448             | 2,506                     | 334,942             | 31.9                      | 379,589             | 1,897                     | 377,692             | 32.3                      |
| Other mortgage-backed securities             | 98,387              | 6,461                     | 91,926              | 8.7                       | 106,451             | 5,671                     | 100,780             | 8.6                       |
| Municipal securities                         | 484,950             | 17,737                    | 467,213             | 44.5                      | 503,991             | (8,072)                   | 512,063             | 43.7                      |
| Collateralized debt obligations (“CDOs”)     | 14,217              | (35,301)                  | 49,518              | 4.7                       | 14,858              | (34,837)                  | 49,695              | 4.2                       |
| Corporate debt securities                    | 27,666              | 2,330                     | 25,336              | 2.4                       | 32,345              | 2,409                     | 29,936              | 2.6                       |
| Equity securities                            | 2,659               | 525                       | 2,134               | 0.2                       | 2,682               | 548                       | 2,134               | 0.2                       |
| <b>Total available-for-sale</b>              | <b>970,430</b>      | <b>(5,730)</b>            | <b>976,160</b>      | <b>92.9</b>               | <b>1,057,802</b>    | <b>(32,498)</b>           | <b>1,090,300</b>    | <b>93.1</b>               |
| <b>Held-to-Maturity</b>                      |                     |                           |                     |                           |                     |                           |                     |                           |
| Municipal securities                         | 78,952              | 4,577                     | 74,375              | 7.1                       | 82,525              | 1,205                     | 81,320              | 6.9                       |
| <b>Total securities</b>                      | <b>\$ 1,049,382</b> | <b>\$ (1,153)</b>         | <b>\$ 1,050,535</b> | <b>100.0</b>              | <b>\$ 1,140,327</b> | <b>\$ (31,293)</b>        | <b>\$ 1,171,620</b> | <b>100.0</b>              |

|                                  | September 30, 2011     |                  |                       | December 31, 2010      |                  |                       |
|----------------------------------|------------------------|------------------|-----------------------|------------------------|------------------|-----------------------|
|                                  | Effective Duration (1) | Average Life (2) | Yield to Maturity (3) | Effective Duration (1) | Average Life (2) | Yield to Maturity (3) |
| <b>Available-for-Sale</b>        |                        |                  |                       |                        |                  |                       |
| U.S. agency securities           | 1.11%                  | 0.78             | 3.90%                 | 1.91%                  | 0.58             | 3.22%                 |
| CMOs                             | 0.61%                  | 2.00             | 1.66%                 | 0.74%                  | 2.52             | 2.31%                 |
| Other mortgage-backed securities | 1.85%                  | 3.63             | 4.53%                 | 2.36%                  | 3.85             | 4.62%                 |
| Municipal securities             | 4.58%                  | 4.04             | 6.16%                 | 5.35%                  | 8.01             | 6.15%                 |
| CDOs                             | 0.25%                  | 8.62             | 0.00%                 | 0.25%                  | 8.78             | 0.00%                 |
| Other securities                 | 6.42%                  | 11.15            | 6.74%                 | 6.58%                  | 11.18            | 6.85%                 |

|                          |       |      |       |       |      |       |
|--------------------------|-------|------|-------|-------|------|-------|
| Total available-for-sale | 2.77% | 3.70 | 4.15% | 3.22% | 5.72 | 4.37% |
| Held-to-Maturity         |       |      |       |       |      |       |
| Municipal securities     | 5.78% | 9.99 | 6.58% | 5.78% | 9.99 | 6.61% |
| Total securities         | 2.98% | 4.15 | 4.32% | 3.40% | 6.02 | 4.52% |

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

### Portfolio Composition

As of September 2011, our securities portfolio totaled \$1.0 billion, a decline of 8.0% compared to December 31, 2010. Approximately 95% of our \$1.0 billion available-for-sale portfolio was comprised of U.S. agency securities, municipals, CMOs, and other mortgage-backed securities as of September 30, 2011. The remainder consisted of seven CDOs with a fair value of \$14.2 million and an aggregate unrealized loss of \$35.3 million and miscellaneous other securities totaling \$30.3 million.

Investments in municipal securities comprised 50.0%, or \$485.0 million, of the total available-for-sale securities portfolio at September 30, 2011. This type of security has historically experienced very low default rates and provided a predictable cash flow. Most of our municipal portfolio carries third-party bond insurance or other types of credit enhancement, and the majority is general obligations of local municipalities. Available-for-sale municipal securities declined 3.8% from \$504.0 million at December 31, 2010. The decline was driven by sales, maturities, and paydowns.

The average life of our investment portfolio declined from 6.02 years as of December 31, 2010 to 4.15 years as of September 30, 2011 driven primarily by the decline in average life of our municipal securities. This decline reflected the impact of a higher probability of calls at September 30, 2011 compared to December 31, 2010 given the lower interest rate environment and improved economic outlook for municipalities, as well as sales of longer-term municipal securities during the period.

#### Securities Sales

Net securities gains were \$449,000 for third quarter 2011 and \$2.5 million for the nine months ended September 30, 2011. Gains on sales of securities of \$2.7 million for the nine months ended September 30, 2011 resulted from the sale of \$177.5 million in collateralized mortgage obligations, municipal securities, and corporate debt securities, of which \$44.2 million was sold in first quarter 2011, \$53.1 million was sold in second quarter 2011, and \$80.1 million was sold in third quarter 2011. We sold these shorter-term investments in order to take advantage of opportunities in the market. These gains were partially offset by an other-than-temporary impairment charge of \$177,000 on a single CDO in third quarter 2011.

Net securities gains were \$6.4 million for third quarter 2010 and \$10.6 million for the first nine months of 2010. These gains were net of other-than-temporary impairment charges of \$1.0 million for third quarter 2010 and \$4.9 million for the first nine months of 2010 primarily associated with our investment in CDOs.

#### Unrealized Gains and Losses

Unrealized gains and losses on securities available-for-sale represent the difference between the aggregate cost and fair value of the portfolio and are reported, on an after-tax basis, as a separate component of stockholders' equity in accumulated other comprehensive loss and presented in the Consolidated Statements of Comprehensive Income. This balance sheet component will fluctuate as current market interest rates and conditions change, thereby affecting the aggregate fair value of the portfolio. Net unrealized losses at September 30, 2011 were \$5.7 million, down from \$32.5 million at December 31, 2010, reflecting the impact of the change in interest rates on our securities portfolio, which primarily consist of fixed-rate securities.

CMOs and other mortgage-backed securities are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. We do not believe any individual unrealized loss on these types of securities as of September 30, 2011 represents an other-than-temporary impairment, since the unrealized losses associated with these securities are not believed to be attributable to credit quality, but rather to changes in interest rates and temporary market movements.

As of September 30, 2011, gross unrealized gains in the municipal securities portfolio totaled \$18.4 million, and gross unrealized losses were \$685,000, resulting in a net unrealized gain of \$17.7 million compared to a net unrealized loss of \$8.1 million as of December 31, 2010. The change in fair value of municipal securities reflects the impact of the change in market interest rates on these fixed-rate investments as well as an improved economic outlook for municipalities since December 31, 2010. Substantially all of these securities carry investment grade ratings, with the majority of them supported by the general revenues of the issuing governmental entity and supported by third-party

insurance. We do not believe the unrealized loss on any of these securities is other-than-temporary.

Our investments in CDOs are supported by the credit of the underlying banks and insurance companies. The unrealized loss on these securities increased \$464,000 since December 31, 2010. The unrealized loss reflects the difference between amortized cost and fair value that we determined did not relate to credit and reflects the market's unfavorable bias against these investments. We do not believe the unrealized losses on the CDOs as of September 30, 2011 represent other-than-temporary impairment. We currently have no evidence that would suggest further reductions in net cash flows on these investments from what has already been recognized. In addition, we do not intend to sell the CDOs with unrealized losses, and we do not believe it is more likely than not that we will be required to sell them before recovery of their amortized cost bases, which may be at maturity. Our estimation of cash flows for these investments and resulting fair values were based upon cash flow modeling, as described in Note 11 of "Notes to the Condensed Consolidated Financial Statements," in Item 1 of this Form 10-Q.

## Effective Duration

The effective duration of the available-for-sale portfolio was 2.77% as of September 30, 2011 compared to 3.22% as of December 31, 2010. The effective duration decreased across all categories as a result of falling interest rates and a higher probability of calls on securities since December 31, 2010.

## LOAN PORTFOLIO AND CREDIT QUALITY

## Portfolio Composition

Table 7  
Loan Portfolio  
(Dollar amounts in thousands)

|   | September 30,<br>2011 | % of<br>Total | December 31,<br>2010 | % of<br>Total | Annualized<br>% Change |
|---|-----------------------|---------------|----------------------|---------------|------------------------|
| Commercial and industrial               | \$ 1,476,034          | 28.9          | \$ 1,465,903         | 28.7          | 0.9                    |
| Agricultural                            | 250,436               | 4.9           | 227,756              | 4.5           | 13.3                   |
| Commercial real estate:                 |                       |               |                      |               |                        |
| Office                                  | 440,641               | 8.6           | 396,836              | 7.8           | 14.7                   |
| Retail                                  | 330,160               | 6.5           | 328,751              | 6.4           | 0.6                    |
| Industrial                              | 492,514               | 9.6           | 478,026              | 9.4           | 4.0                    |
| Multi-family                            | 317,313               | 6.2           | 349,862              | 6.9           | (12.4)                 |
| Residential construction                | 116,283               | 2.3           | 174,690              | 3.4           | (44.6)                 |
| Commercial construction                 | 145,889               | 2.9           | 164,472              | 3.2           | (15.1)                 |
| Other commercial real estate            | 877,241               | 17.2          | 856,357              | 16.8          | 3.3                    |
| Total commercial real estate            | 2,720,041             | 53.3          | 2,748,994            | 53.9          | (1.4)                  |
| Total corporate loans                   | 4,446,511             | 87.1          | 4,442,653            | 87.1          | 0.1                    |
| Home equity                             | 424,986               | 8.3           | 445,243              | 8.7           | (6.1)                  |
| 1-4 family mortgages                    | 189,587               | 3.7           | 160,890              | 3.2           | 23.8                   |
| Installment loans                       | 43,410                | 0.9           | 51,774               | 1.0           | (21.5)                 |
| Total consumer loans                    | 657,983               | 12.9          | 657,907              | 12.9          | 0.0                    |
| Total loans, excluding<br>covered loans | 5,104,494             | 100.0         | 5,100,560            | 100.0         | 0.1                    |
| Covered loans (1)                       | 289,747               |               | 371,729              |               | (29.4)                 |
| Total loans                             | \$ 5,394,241          |               | \$ 5,472,289         |               | (1.9)                  |

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

Total loans, including covered loans, of \$5.4 billion as of September 30, 2011 declined 1.9% from December 31, 2010. Excluding the reduction in residential and commercial construction (which is discussed further below) and covered loans, annualized loan growth for the nine-month period ending September 30, 2011 was 1.3%. The growth was led by 1-4 family mortgages (23.8%), office (14.7%), and agricultural (13.3%).





## Non-performing Assets

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

Table 8  
Loan Portfolio by Performing/Non-Performing Status  
(Dollar amounts in thousands)

|  | Total<br>Loans | Performing   | Past Due               |                     | Non-accrual | TDRs<br>(still accruing<br>interest) |
|--|----------------|--------------|------------------------|---------------------|-------------|--------------------------------------|
|  |                |              | 30-89 Days<br>Past Due | 90 Days<br>Past Due |             |                                      |
| As of September 30,<br>2011                |                |              |                        |                     |             |                                      |
| Commercial and<br>industrial               | \$ 1,476,034   | \$ 1,431,846 | \$ 8,999               | \$ 3,096            | \$ 30,507   | \$ 1,586                             |
| Agricultural                               | 250,436        | 247,459      | -                      | -                   | 2,977       | -                                    |
| Commercial real<br>estate:                 |                |              |                        |                     |             |                                      |
| Office                                     | 440,641        | 432,713      | 1,725                  | 69                  | 6,134       | -                                    |
| Retail                                     | 330,160        | 317,751      | 300                    | -                   | 10,359      | 1,750                                |
| Industrial                                 | 492,514        | 472,997      | 11,223                 | 59                  | 8,235       | -                                    |
| Multi-family                               | 317,313        | 297,747      | 1,370                  | -                   | 18,196      | -                                    |
| Residential<br>construction                | 116,283        | 95,372       | -                      | -                   | 20,911      | -                                    |
| Commercial<br>construction                 | 145,889        | 130,217      | -                      | -                   | 15,672      | -                                    |
| Other commercial<br>real estate            | 877,241        | 827,983      | 2,501                  | 802                 | 45,727      | 228                                  |
| Total commercial<br>real estate            | 2,720,041      | 2,574,780    | 17,119                 | 930                 | 125,234     | 1,978                                |
| Total corporate loans                      | 4,446,511      | 4,254,085    | 26,118                 | 4,026               | 158,718     | 3,564                                |
| Home equity                                | 424,986        | 409,281      | 5,380                  | 1,452               | 7,789       | 1,084                                |
| 1-4 family mortgages                       | 189,587        | 180,108      | 2,112                  | 489                 | 4,648       | 2,230                                |
| Installment loans                          | 43,410         | 42,729       | 451                    | 41                  | 34          | 155                                  |
| Total consumer loans                       | 657,983        | 632,118      | 7,943                  | 1,982               | 12,471      | 3,469                                |
| Total loans,<br>excluding covered<br>loans | 5,104,494      | 4,886,203    | 34,061                 | 6,008               | 171,189     | 7,033                                |
| Covered loans                              | 289,747        | 206,270      | 11,070                 | 56,834              | 15,573      | -                                    |
| Total loans                                | \$ 5,394,241   | \$ 5,092,473 | \$ 45,131              | \$ 62,842           | \$ 186,762  | \$ 7,033                             |
| As of December 31,<br>2010                 |                |              |                        |                     |             |                                      |
| Commercial and<br>industrial               | \$ 1,465,903   | \$ 1,403,409 | \$ 5,398               | \$ 1,552            | \$ 50,088   | \$ 5,456                             |
| Agricultural                               | 227,756        | 223,021      | 65                     | 187                 | 2,497       | 1,986                                |

|                                      |              |              |           |           |            |           |  |
|--------------------------------------|--------------|--------------|-----------|-----------|------------|-----------|--|
| Commercial real estate:              |              |              |           |           |            |           |  |
| Office                               | 396,836      | 389,936      | 1,671     | -         | 5,087      | 142       |  |
| Retail                               | 328,751      | 320,477      | 447       | -         | 7,827      | -         |  |
| Industrial                           | 478,026      | 468,995      | 461       | -         | 6,659      | 1,911     |  |
| Multi-family Residential             | 349,862      | 343,070      | 486       | -         | 6,203      | 103       |  |
| construction                         | 174,690      | 122,317      | 51        | 200       | 52,122     | -         |  |
| Commercial construction              | 164,472      | 135,787      | -         | -         | 28,685     | -         |  |
| Other commercial real estate         | 856,357      | 802,461      | 8,115     | 345       | 40,605     | 4,831     |  |
| Total commercial real estate         | 2,748,994    | 2,583,043    | 11,231    | 545       | 147,188    | 6,987     |  |
| Total corporate loans                | 4,442,653    | 4,209,473    | 16,694    | 2,284     | 199,773    | 14,429    |  |
| Home equity                          | 445,243      | 428,726      | 4,055     | 1,870     | 7,948      | 2,644     |  |
| 1-4 family mortgages                 | 160,890      | 149,419      | 2,267     | 4         | 3,902      | 5,298     |  |
| Installment loans                    | 51,774       | 50,899       | 630       | 86        | 159        | -         |  |
| Total consumer loans                 | 657,907      | 629,044      | 6,952     | 1,960     | 12,009     | 7,942     |  |
| Total loans, excluding covered loans | 5,100,560    | 4,838,517    | 23,646    | 4,244     | 211,782    | 22,371    |  |
| Covered loans                        | 371,729      | 268,934      | 18,445    | 84,350    | -          | -         |  |
| Total loans                          | \$ 5,472,289 | \$ 5,107,451 | \$ 42,091 | \$ 88,594 | \$ 211,782 | \$ 22,371 |  |

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

Table 9  
Non-Performing Assets and Past Due Loans  
(Dollar amounts in thousands)

|   | 2011         |            |            |             | 2010         |
|---|--------------|------------|------------|-------------|--------------|
|   | September 30 | June 30    | March 31   | December 31 | September 30 |
| Non-performing assets, excluding covered loans and covered OREO |              |            |            |             |              |
| Non-accrual loans   | \$ 171,189   | \$ 177,495 | \$ 186,563 | \$ 211,782  | \$ 211,366   |
| 90 days or more past due loans                                  | 6,008        | 6,502      | 5,231      | 4,244       | 9,136        |
| Total non-performing loans                                      | 177,197      | 183,997    | 191,794    | 216,026     | 220,502      |
| TDRs (still accruing interest)                                  | 7,033        | 14,529     | 14,120     | 22,371      | 11,002       |
| Other real estate owned   | 23,863       | 24,407     | 33,863     | 31,069      | 52,044       |
| Total non-performing assets                                     | \$ 208,093   | \$ 222,933 | \$ 239,777 | \$ 269,466  | \$ 283,548   |
| 30-89 days past due loans                                       | \$ 34,061    | \$ 30,424  | \$ 28,927  | \$ 23,646   | \$ 41,590    |
| Non-accrual loans to total loans                                | 3.35%        | 3.47%      | 3.66%      | 4.15%       | 4.09%        |
| Non-performing loans to total loans                             | 3.47%        | 3.60%      | 3.76%      | 4.24%       | 4.27%        |
| Non-performing assets to loans plus OREO                        | 4.06%        | 4.34%      | 4.67%      | 5.25%       | 5.44%        |
| Covered loans and covered OREO (1)                              |              |            |            |             |              |
| Non-accrual loans   | \$ 15,573    | \$ 3,588   | \$ -       | \$ -        | \$ -         |
| 90 days or more past due loans                                  | 56,834       | 68,324     | 88,605     | 84,350      | 74,777       |
| Total non-performing loans                                      | 72,407       | 71,912     | 88,605     | 84,350      | 74,777       |
| TDRs (still accruing interest)                                  | -            | -          | -          | -           | -            |
| Other real estate owned   | 21,594       | 14,583     | 21,543     | 22,370      | 24,222       |
| Total non-performing assets                                     | \$ 94,001    | \$ 86,495  | \$ 110,148 | \$ 106,720  | \$ 98,999    |
| 30-89 days past due loans                                       | \$ 11,070    | \$ 26,180  | \$ 10,399  | \$ 18,445   | \$ 24,005    |
| Non-performing assets, including covered loans and covered OREO |              |            |            |             |              |
| Non-accrual loans   | \$ 186,762   | \$ 181,083 | \$ 186,563 | \$ 211,782  | \$ 211,366   |
| 90 days or more past due loans                                  | 62,842       | 74,826     | 93,836     | 88,594      | 83,913       |
| Total non-performing loans                                      | 249,604      | 255,909    | 280,399    | 300,376     | 295,279      |
| TDRs (still accruing interest)                                  | 7,033        | 14,529     | 14,120     | 22,371      | 11,002       |
| Other real estate owned   | 45,457       | 38,990     | 55,406     | 53,439      | 76,266       |
| Total non-performing assets                                     | \$ 302,094   | \$ 309,428 | \$ 349,925 | \$ 376,186  | \$ 382,547   |

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|  |    |        |    |        |    |        |    |        |    |        |
|--|----|--------|----|--------|----|--------|----|--------|----|--------|
| 30-89 days past due loans                | \$ | 45,131 | \$ | 56,604 | \$ | 39,326 | \$ | 42,091 | \$ | 65,595 |
| Non-accrual loans to total loans         |    | 3.46%  |    | 3.34%  |    | 3.43%  |    | 3.87%  |    | 3.80%  |
| Non-performing loans to total loans      |    | 4.63%  |    | 4.71%  |    | 5.15%  |    | 5.49%  |    | 5.31%  |
| Non-performing assets to loans plus OREO |    | 5.55%  |    | 5.66%  |    | 6.36%  |    | 6.81%  |    | 6.79%  |

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

Non-performing assets, excluding covered loans and covered OREO, were \$208.1 million at September 30, 2011, decreasing \$61.4 million, or 22.8%, from December 31, 2010. The reduction was substantially due to remediation activities, dispositions, charge-offs, and the return of TDRs to performing status.

During the nine months ended September 30, 2011, we had gross reductions of non-performing assets totaling \$90.9 million, consisting of \$64.2 million in non-accrual loans sold, paid off, or transferred to held-for-sale and \$26.7 million in OREO properties sold. For further discussion of these dispositions, refer to the section titled “Disposals of Non-performing Assets.” During the first nine months of 2011, we also returned \$26.1 million in TDRs to performing status as a result of satisfactory payment performance after the modifications of the loans.

Covered loans and covered OREO were recorded at their estimated fair values at the time of acquisition. These assets are covered by loss sharing agreements with the FDIC, whereby the FDIC will reimburse us for the majority of the losses incurred on these assets, substantially mitigating the risk of loss. Although non-performing covered loans are past due based on contractual terms, substantially all of them continue to perform in accordance with our expectations of cash flows.

#### Non-accrual Loans

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days or more past due or management deems the collectability of the principal or interest to be in question. Loans to customers whose financial condition has deteriorated are considered for non-accrual status whether or not the loan is 90 days or more past due. Once interest accruals are discontinued, accrued but uncollected interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for loan losses. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Classification of a loan as non-accrual does not preclude the ultimate collection of loan principal or interest. We continue to accrue interest on certain loans 90 days or more past due when we determine these loans are well secured and in the process of collection.

Non-accrual loans declined from \$211.8 million at December 31, 2010 to \$171.2 million at September 30, 2011 as sales, payments, charge-offs, and transfers to OREO exceeded the amount of loans downgraded from performing to non-accrual during the first nine months of 2011.

#### Construction Portfolio

Construction loans totaled \$262.2 million at September 30, 2011, a reduction of \$77.0 million, or 22.7%, from December 31, 2010. This portfolio represents loans to developers and is particularly susceptible to declining real estate values. Non-performing construction loans totaled \$36.6 million at September 30, 2011, a 54.8% decline compared to December 31, 2010 and represented 14.0% of total construction loans as of September 30, 2011 compared to 23.9% as of December 31, 2010. The decline resulted from sales, paydowns, charge-offs, and transfers to OREO upon foreclosure.

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

Table 10  
Construction Loans by Type, Excluding Covered Loans  
(Dollar amounts in thousands)

| Underlying Collateral<br>As of September 30,<br>2011      | Residential<br>Construction |                     | Commercial<br>Construction |                     | Combined   |                     | Non-<br>performing<br>Loans |
|---|-----------------------------|---------------------|----------------------------|---------------------|------------|---------------------|-----------------------------|
|   | Amount                      | Percent<br>of Total | Amount                     | Percent<br>of Total | Amount     | Percent<br>of Total |                             |
| Raw Land  | \$ 27,320                   | 23.5                | \$ 39,876                  | 27.3                | \$ 67,196  | 25.6                | \$ 20,782                   |
| Developed Land  | 57,997                      | 49.9                | 56,237                     | 38.6                | 114,234    | 43.6                | 9,805                       |
| Construction  | 11,041                      | 9.5                 | 15,963                     | 10.9                | 27,004     | 10.3                | 1,730                       |
| Substantially<br>completed<br>structures                  | 16,059                      | 13.8                | 29,657                     | 20.3                | 45,716     | 17.4                | 2,759                       |
| Mixed and other   | 3,866                       | 3.3                 | 4,156                      | 2.9                 | 8,022      | 3.1                 | 1,507                       |
| Total   | \$ 116,283                  | 100.0               | \$ 145,889                 | 100.0               | \$ 262,172 | 100.0               | \$ 36,583                   |
| Weighted-average<br>maturity<br>(in years)                | 0.41                        |                     | 0.81                       |                     | 0.63       |                     |                             |
| Non-accrual loans   | \$ 20,911                   |                     | \$ 15,672                  |                     | \$ 36,583  |                     |                             |
| 90-days past due<br>loans                                 | -                           |                     | -                          |                     | -          |                     |                             |
| Total non-performing<br>loans                             | \$ 20,911                   |                     | \$ 15,672                  |                     | \$ 36,583  |                     |                             |
| Non-performing<br>loans as<br>a percent of total<br>loans | 18.0%                       |                     | 10.7%                      |                     | 14.0%      |                     |                             |
| As of December 31,<br>2010                                |                             |                     |                            |                     |            |                     |                             |
| Raw land  | \$ 35,401                   | 20.3                | \$ 46,995                  | 28.6                | \$ 82,396  | 24.3                | \$ 38,605                   |
| Developed land  | 83,229                      | 47.6                | 71,856                     | 43.7                | 155,085    | 45.7                | 23,320                      |
| Construction  | 14,077                      | 8.1                 | 22,882                     | 13.9                | 36,959     | 10.9                | 1,570                       |
| Substantially<br>completed<br>structures                  | 32,538                      | 18.6                | 22,284                     | 13.5                | 54,822     | 16.2                | 10,576                      |
| Mixed and other   | 9,445                       | 5.4                 | 455                        | 0.3                 | 9,900      | 2.9                 | 6,936                       |
| Total   | \$ 174,690                  | 100.0               | \$ 164,472                 | 100.0               | \$ 339,162 | 100.0               | \$ 81,007                   |
| Weighted-average<br>maturity (in years)                   | 0.49                        |                     | 0.68                       |                     | 0.58       |                     |                             |
| Non-accrual loans   | \$ 52,122                   |                     | \$ 28,685                  |                     | \$ 80,807  |                     |                             |
| 90-days past due<br>loans                                 | 200                         |                     | -                          |                     | 200        |                     |                             |
| Total<br>non-performing<br>loans                          | \$ 52,322                   |                     | \$ 28,685                  |                     | \$ 81,007  |                     |                             |

|   |       |       |       |
|---|-------|-------|-------|
| Non-performing<br>loans as<br>a percent of total<br>loans | 30.0% | 17.4% | 23.9% |
|---|-------|-------|-------|

Six construction credits primarily in the raw land category, the largest of which was \$14.0 million, represent 64.8% of the \$36.6 million in non-performing construction loans as of September 30, 2011. Life-to-date charge-offs on these six credits totaled \$16.9 million. We had a valuation allowance related to one of these loans totaling \$1.0 million as of September 30, 2011.



## TDRs

TDRs are loans for which the original contractual terms of the loans have been modified and both of the following conditions exist: (i) the restructuring constitutes a concession (including forgiveness of principal or interest) and (ii) the borrower is experiencing financial difficulties. We do not accrue interest on any TDR unless we believe collection of all principal and interest under the modified terms is reasonably assured. Generally, six months of consecutive payment performance by the borrower under the restructured terms is required before a TDR is returned to accrual status assuming the loan is restructured at market terms consistent with the credit risk of the borrower. However, the period could vary depending upon the individual facts and circumstances of the loan.

For a TDR to begin accruing interest, the borrower must demonstrate both some level of performance and the capacity to perform under the modified terms. A history of timely payments and adherence to financial covenants generally serves as sufficient evidence of the borrower's performance. An evaluation of the borrower's current creditworthiness is used to assess whether the borrower has the capacity to repay the loan under the modified terms. This evaluation includes an estimate of expected cash flows, evidence of strong financial position, and estimates of the value of collateral, if applicable. Once the borrower demonstrates the ability to meet the modified terms of the TDR and we are reasonably assured we will receive the full principal and interest under the restructured terms, we will return the loan to accrual status.

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

At September 30, 2011, we had TDRs totaling \$23.2 million, a decrease of \$33.0 million from December 31, 2010. The September 30, 2011 total includes \$7.0 million in loans that were restructured at market terms and are accruing interest. After a period of performance under the restructured terms, these loans will be reclassified to performing status. During the first nine months of 2011, \$26.1 million of TDRs were returned to performing status as a result of satisfactory payment performance after the modification of the loans.

Table 11  
TDRs by Type  
(Dollar amounts in thousands)

|                                     | September 30, 2011 |           | June 30, 2011   |           | December 31, 2010 |           | September 30, 2010 |           |
|-------------------------------------|--------------------|-----------|-----------------|-----------|-------------------|-----------|--------------------|-----------|
|                                     | Number of Loans    | Amount    | Number of Loans | Amount    | Number of Loans   | Amount    | Number of Loans    | Amount    |
| Commercial and industrial           | 21                 | \$ 2,534  | 25              | \$ 18,887 | 46                | \$ 23,404 | 35                 | \$ 18,612 |
| Agricultural                        | -                  | -         | -               | -         | 1                 | 1,986     |                    |           |
| Commercial real estate:             |                    |           |                 |           |                   |           |                    |           |
| Office                              | -                  | -         | 1               | 1,938     | 1                 | 142       |                    |           |
| Retail                              | 2                  | 1,750     | 1               | 1,529     | -                 | -         |                    |           |
| Industrial                          | -                  | -         | -               | -         | 2                 | 1,911     |                    |           |
| Multi-family                        | 1                  | 446       | 8               | 2,582     | 9                 | 3,193     | 8                  | 3,619     |
| Residential construction            | 2                  | 1,973     | 3               | 3,115     | 4                 | 8,323     | 6                  | 1,900     |
| Other commercial real estate        | 9                  | 11,412    | 7               | 2,633     | 13                | 7,229     | 4                  | 2,415     |
| Total commercial real estate loans  | 14                 | 15,581    | 20              | 11,797    | 29                | 20,798    | 18                 | 7,934     |
| Home equity loans                   | 24                 | 1,788     | 24              | 1,701     | 50                | 3,233     | 43                 | 2,603     |
| 1-4 family mortgages                | 27                 | 3,253     | 28              | 3,420     | 49                | 6,703     | 44                 | 5,898     |
| Total consumer loans                | 51                 | 5,041     | 52              | 5,121     | 99                | 9,936     | 87                 | 8,501     |
| Total TDRs                          | 86                 | \$ 23,156 | 97              | \$ 35,805 | 175               | \$ 56,124 | 140                | \$ 35,047 |
| TDRs, still accruing interest       | 59                 | \$ 7,033  | 56              | 14,529    | 120               | \$ 22,371 | 104                | \$ 11,002 |
| TDRs included in non-accrual        | 27                 | 16,123    | 41              | 21,276    | 55                | 33,753    | 38                 | 24,257    |
| Total TDRs                          | 86                 | \$ 23,156 | 97              | \$ 35,805 | 175               | \$ 56,124 | 142                | \$ 35,259 |
| Year-to-date charge-offs on TDRs    |                    | \$ 1,552  |                 | \$ 1,809  |                   | \$ 11,534 |                    | \$ 926    |
| Valuation allowance related to TDRs |                    | \$ -      |                 | \$ -      |                   | \$ -      |                    | \$ -      |

#### Adverse Rated Loans

Adverse rated loans consist of special mention loans, which are loans that have potential weaknesses that deserve the special attention of management, and substandard loans, which, although they continue to accrue interest, exhibit weaknesses that may jeopardize the liquidation of the debt, such that we could sustain some loss if the weaknesses are not corrected. Potential problem loans totaled \$494.8 million as of September 30, 2011, down \$61.2 million, or 11.0%, from \$556.0 million as of December 31, 2010. These loans are performing in accordance with contractual terms, but management has concerns about the potential ability of the obligor to continue to comply with repayment

terms because of the obligor's potential operating or financial difficulties. For a discussion of credit quality indicators, refer to Note 6 of "Notes to Condensed Consolidated Financial Statements" in Item 1 of this Form 10-Q.

## OREO

OREO consists of properties acquired as the result of borrower defaults on loans. OREO is recorded at the lower of the outstanding loan balance or the fair value of the property received, less estimated selling costs. Write-downs occurring at foreclosure are charged against the allowance for loan losses. On a periodic basis, the carrying values of OREO are reduced to reflect reductions in value resulting from new appraisals, new list prices, changes in market conditions, and/or changes in disposition strategies. Write-downs are recorded for these subsequent declines in value and are included in other noninterest expense along with expenses to maintain the properties.

OREO, excluding covered OREO, was \$23.9 million at September 30, 2011 compared to \$31.1 million at December 31, 2010 and \$52.0 million at September 30, 2010.

Table 12  
OREO Properties by Type

(Dollar amounts in thousands)

|                                    | September 30, 2011   |           | December 31, 2010    |           | September 30, 2010   |           |
|------------------------------------|----------------------|-----------|----------------------|-----------|----------------------|-----------|
|                                    | Number of Properties | Amount    | Number of Properties | Amount    | Number of Properties | Amount    |
| Single family homes                | 3                    | \$ 763    | 6                    | \$ 1,113  | 15                   | \$ 2,573  |
| Land parcels:                      |                      |           |                      |           |                      |           |
| Raw land                           | 7                    | 6,088     | 5                    | 7,467     | 5                    | 11,511    |
| Farmland                           | -                    | -         | 2                    | 4,657     | 1                    | 3,572     |
| Commercial lots                    | 15                   | 6,423     | 14                   | 4,096     | 16                   | 5,158     |
| Single-family lots                 | 21                   | 5,409     | 27                   | 7,564     | 58                   | 17,334    |
| Total land parcels                 | 43                   | 17,920    | 48                   | 23,784    | 80                   | 37,575    |
| Multi-family units                 | 2                    | 572       | 4                    | 714       | 8                    | 2,609     |
| Commercial properties              | 16                   | 4,608     | 12                   | 5,458     | 12                   | 9,287     |
| Total OREO, excluding covered OREO | 64                   | 23,863    | 70                   | 31,069    | 115                  | 52,044    |
| Covered OREO                       | 44                   | 21,594    | 44                   | 22,370    | 47                   | 24,222    |
| Total OREO properties              | 108                  | \$ 45,457 | 114                  | \$ 53,439 | 162                  | \$ 76,266 |

## Disposals of Non-performing Assets

During the nine months ended September 30, 2011, we had gross reductions of non-performing assets totaling \$90.9 million, comprised of \$64.2 million in non-accrual loans sold, paid off, or transferred to held-for-sale and \$26.7 million in OREO properties sold. The following table summarizes disposals of non-performing assets during the nine months ended September 30, 2011.

Table 13  
Disposals of Non-accrual Loans  
(Dollar amounts in thousands)

|   | Nine Months Ended September 30, 2011 |            |             |
|---|--------------------------------------|------------|-------------|
|   | Proceeds                             | Book Value | Charge-offs |
| Loans sold or identified as held-for-sale                   |                                      |            |             |
| Commercial and industrial                                   | \$ 3,120                             | \$ 4,226   | \$ (1,106)  |
| Agricultural  | -                                    | -          | -           |
| Commercial real estate:                                     |                                      |            |             |
| Office retail, and, industrial                              | 2,051                                | 2,987      | (936)       |
| Multi-family  | -                                    | -          | -           |
| Residential construction                                    | 4,891                                | 7,864      | (2,973)     |
| Commercial construction                                     | 3,800                                | 4,000      | (200)       |
| Other commercial real estate                                | -                                    | -          | -           |
| Total commercial real estate                                | 10,742                               | 14,851     | (4,109)     |
| Total loans sold or transferred to held-for-sale            | 13,862                               | 19,077     | (5,215)     |
| Partial sales and paydowns                                  | 45,161                               | 45,161     | -           |
| Total loans sold, paid off, or transferred to held-for-sale | \$ 59,023                            | \$ 64,238  | \$ (5,215)  |

For the nine months ended September 30, 2011, proceeds from disposals of non-accrual loans represented 91.9% of carrying value. As of September 30, 2011, we transferred two construction loans totaling \$6.2 million to the held-for-sale category, resulting in a charge-off of \$1.6 million during third quarter 2011.

Table 14  
Disposals of OREO Properties  
(Dollar amounts in thousands)

|  | Nine Months Ended September 30, 2011 |              |            |
|--|--------------------------------------|--------------|------------|
|  | OREO                                 | Covered OREO | Total      |
| OREO sales   |                                      |              |            |
| Proceeds from sales  | \$ 21,921                            | \$ 3,855     | \$ 25,776  |
| Less: Basis of properties sold   | 26,678                               | 4,050        | 30,728     |
| Losses on sales of OREO, net   | \$ (4,757)                           | \$ (195)     | \$ (4,952) |
| OREO transfers and write-downs   |                                      |              |            |
| OREO transferred to premises, furniture, and equipment (at fair value) | \$ 841                               | \$ -         | \$ 841     |

|                  |    |       |    |       |    |       |
|------------------|----|-------|----|-------|----|-------|
| OREO write-downs | \$ | 1,996 | \$ | 1,313 | \$ | 3,309 |
|------------------|----|-------|----|-------|----|-------|

OREO sales, excluding covered OREO, consisted of 96 properties for the nine months ended September 30, 2011, with the majority classified as farmland, residential lots, and 1-4 family.

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

#### Allowance for Credit Losses

The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded commitments and represents management's best estimate of probable losses inherent in the existing loan portfolio. Determination of the allowance for loan losses is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogenous loans based on a loss migration analysis that uses historical loss experience, consideration of current economic trends, and other factors, all of which may be susceptible to significant change.

The allowance for loan losses is established through a provision for loan losses charged to expense and takes into consideration such internal and external qualitative factors as changes in the nature, volume, size and current risk characteristics of the loan portfolio, an assessment of individual problem loans, actual and anticipated loss experience, current economic conditions that affect the borrower's ability to pay, and other pertinent factors. The allowance for loan losses consists of (i) specific reserves established for probable losses on individual loans for which the recorded investment in the loan exceeds the value of the loan, (ii) reserves based on a loss migration analysis that uses historical credit loss experience for each loan category, and (iii) the impact of other internal and external qualitative factors.

We also maintain a reserve for unfunded credit commitments to provide for the risk of loss inherent in these arrangements. The reserve for unfunded credit commitments is computed based on a loss migration analysis similar to that used to determine the allowance for loan losses.

The establishment of the allowance for credit losses involves a high degree of judgment and includes a level of imprecision given the difficulty of identifying all the factors impacting loan repayment and the timing of when losses actually occur. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates and property values, and the interpretation by regulatory authorities of loan risk classifications. While each component of the allowance for credit losses is determined separately, the entire balance is available for the entire loan portfolio. Management believes that the allowance for credit losses of \$131.3 million is an appropriate estimate of credit losses inherent in the loan portfolio as of September 30, 2011.

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

Table 15  
 Allowance for Credit Losses  
 And Summary of Loan Loss Experience  
 (Dollar amounts in thousands)

|   | Quarters Ended |                 |            |                     |              |
|---|----------------|-----------------|------------|---------------------|--------------|
|   | September 30   | 2011<br>June 30 | March 31   | 2010<br>December 31 | September 30 |
| Change in allowance for credit losses:      |                |                 |            |                     |              |
| Balance at beginning of quarter             | \$ 139,831     | \$ 145,003      | \$ 145,072 | \$ 145,019          | \$ 145,477   |
| Loans charged-off:                          |                |                 |            |                     |              |
| Commercial and industrial                   | (10,761)       | (6,003)         | (4,965)    | (10,629)            | (13,968)     |
| Agricultural                                | (177)          | (900)           | (9)        | (125)               | (489)        |
| Office, retail, and industrial              | (2,549)        | (647)           | (1,199)    | (2,888)             | (3,205)      |
| Multi-family                                | (2,244)        | (6,652)         | (549)      | (1,017)             | (412)        |
| Residential construction                    | (2,314)        | (3,661)         | (5,422)    | (36,435)            | (4,571)      |
| Commercial construction                     | (4,197)        | (185)           | (261)      | (7,743)             | (228)        |
| Other commercial real estate                | (4,490)        | (2,484)         | (5,401)    | (12,354)            | (10,417)     |
| Consumer                                    | (1,909)        | (2,767)         | (2,424)    | (2,416)             | (2,139)      |
| 1-4 family mortgages                        | (333)          | (341)           | (247)      | (238)               | (364)        |
| Total loans charged-off                     | (28,974)       | (23,640)        | (20,477)   | (73,845)            | (35,793)     |
| Recoveries on loans previously charged-off: |                |                 |            |                     |              |
| Commercial and industrial                   | 596            | 418             | 1,837      | 431                 | 706          |
| Agricultural                                | -              | 101             | -          | -                   | -            |
| Office, retail, and industrial              | 6              | 38              | 16         | -                   | 380          |
| Multi-family                                | 74             | -               | -          | (189)               | 190          |
| Residential construction                    | 64             | 2,762           | 4          | 500                 | 111          |
| Commercial construction                     | 82             | 52              | -          | -                   | -            |
| Other commercial real estate                | 69             | 377             | 43         | 152                 | 200          |
| Consumer                                    | 129            | 64              | 107        | 42                  | 160          |
| 1-4 family mortgages                        | 13             | 1               | 1          | -                   | 1            |
| Total recoveries on loans                   | 1,033          | 3,813           | 2,008      | 936                 | 1,748        |



|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| previously charged-off                           |            |            |            |            |            |
| Net loans charged-off, excluding covered loans   | (27,941)   | (19,827)   | (18,469)   | (72,909)   | (34,045)   |
| Net (charge-offs) recoveries on covered loans    | (1,024)    | (4,108)    | (1,092)    | (935)      | 11         |
| Net loans charged off                            | (28,965)   | (23,935)   | (19,561)   | (73,844)   | (34,034)   |
| Provision charged to operating expense:          |            |            |            |            |            |
| Provision, excluding provision for covered loans | 18,378     | 14,655     | 18,400     | 72,962     | 33,587     |
| Provision for covered loans                      | 5,271      | 22,356     | 7,501      | 14,410     | (424)      |
| Less: expected reimbursement from the FDIC       | (3,224)    | (18,248)   | (6,409)    | (13,475)   | 413        |
| Net provision for covered loans                  | 2,047      | 4,108      | 1,092      | 935        | (11)       |
| Total provision charged to operating expense     | 20,425     | 18,763     | 19,492     | 73,897     | 33,576     |
| Balance at end of quarter                        | \$ 131,291 | \$ 139,831 | \$ 145,003 | \$ 145,072 | \$ 145,019 |
| Allowance for loan losses                        | \$ 128,791 | \$ 137,331 | \$ 142,503 | \$ 142,572 | \$ 144,569 |
| Reserve for unfunded commitments                 | 2,500      | 2,500      | 2,500      | 2,500      | 450        |
| Total allowance for credit losses                | \$ 131,291 | \$ 139,831 | \$ 145,003 | \$ 145,072 | \$ 145,019 |

|   | Quarters Ended |                 |              |              |                      |
|---|----------------|-----------------|--------------|--------------|----------------------|
|   | September 30   | 2011<br>June 30 | March 31     | December 31  | 2010<br>September 30 |
| Average loans, excluding covered loans                                      | \$ 5,136,130   | \$ 5,108,234    | \$ 5,075,840 | \$ 5,155,416 | \$ 5,207,419         |
| Net loans charged-off to average loans, excluding covered loans, annualized | 2.16%          | 1.56%           | 1.48%        | 5.61%        | 2.59%                |
| Allowance for credit losses at end of period as a percent of:               |                |                 |              |              |                      |
| Total loans, excluding covered loans  | 2.57%          | 2.73%           | 2.85%        | 2.84%        | 2.81%                |
| Non-performing loans, excluding covered loans                               | 74%            | 76%             | 76%          | 67%          | 66%                  |
| Average loans, including covered loans                                      | \$ 5,440,354   | \$ 5,443,761    | \$ 5,438,978 | \$ 5,545,953 | \$ 5,494,712         |
| Net loans charged-off to average loans, annualized                          | 2.11%          | 1.76%           | 1.46%        | 5.28%        | 2.46%                |
| Allowance for credit losses at end of period as a percent of:               |                |                 |              |              |                      |
| Total loans   | 2.43%          | 2.58%           | 2.66%        | 2.65%        | 2.61%                |
| Non-performing loans  | 53%            | 55%             | 52%          | 48%          | 49%                  |

The allowance for credit losses represented 2.57% of total loans outstanding, excluding covered loans, at September 30, 2011 compared to 2.84% at December 31, 2010 and 2.81% at September 30, 2010. The allowance for credit losses declined \$13.8 million from \$145.1 million as of December 31, 2010 to \$131.3 million as of September 30, 2011. During the first nine months of 2011, we saw declines in non-accrual, non-performing, and adverse-rated loans, which drove improved credit metrics, resulting in a decrease in our estimate of credit losses inherent in the loan portfolio and the amount of allowance for credit losses deemed appropriate to cover those losses.

Net charge-offs for third quarter 2011 were \$29.0 million, down \$5.1 million, or 14.9%, from third quarter 2010. Net charge-offs for third quarter 2011, excluding charge-offs related to covered loans, were \$27.9 million, compared to \$34.0 million for third quarter 2010, with most of the decline in the other commercial real estate and commercial and industrial categories.

For the nine months ended September 30, 2011, net charge-offs, excluding charge-offs on covered loans, totaled \$66.2 million compared to \$72.6 million for the same period in 2010, with declines in all categories except for multi-family and other commercial real estate. The charge-offs on multi-family loans were largely driven by three credit relationships.

Charge-offs related to covered loans for third quarter 2011, as well as the other quarters shown, reflect the decline in estimated cash flows of certain acquired loans, net of the reimbursement from the FDIC under loss sharing arrangements. The comparative increase reflects the initial re-estimation of the present value of loans acquired in a third quarter 2010 FDIC-assisted transaction. Management performs these remeasurements of cash flows periodically, and any declines, net of loss share, are reflected as charge-offs in the period of remeasurement. Conversely, any increases in estimated cash flows, net of loss share, are recorded through prospective yield adjustments over the remaining lives of the specific loans. To date, increases in estimated cash flows have exceeded declines, and such increases will be reflected in higher margins in future periods.

## FUNDING AND LIQUIDITY MANAGEMENT

The following table provides a comparison of average funding sources for the quarters ended September 30, 2011, December 31, 2010, and September 30, 2010. We believe that average balances, rather than period-end balances, are more meaningful in analyzing funding sources because of the inherent fluctuations that may occur on a monthly basis within most funding categories.

Table 16  
Funding Sources – Average Balances  
(Dollar amounts in thousands)

|   | Quarters Ended        |                      |                       | Third Quarter 2011<br>% Change From |                          |
|---|-----------------------|----------------------|-----------------------|-------------------------------------|--------------------------|
|   | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 | Fourth<br>Quarter<br>2010           | Third<br>Quarter<br>2010 |
| Demand deposits                                       | \$ 1,569,671          | \$ 1,348,188         | \$ 1,242,257          | 16.4                                | 26.4                     |
| Savings deposits                                      | 940,151               | 864,334              | 832,672               | 8.8                                 | 12.9                     |
| NOW accounts  | 1,129,893             | 1,075,642            | 1,173,347             | 5.0                                 | (3.7)                    |
| Money market accounts                                 | 1,236,546             | 1,302,325            | 1,226,314             | (5.1)                               | 0.8                      |
| Transactional deposits                                | 4,876,261             | 4,590,489            | 4,474,590             | 6.2                                 | 9.0                      |
| Time deposits   | 1,713,081             | 2,045,330            | 1,998,694             | (16.2)                              | (14.3)                   |
| Brokered deposits                                     | 18,332                | 24,059               | 24,027                | (23.8)                              | (23.7)                   |
| Total time deposits                                   | 1,731,413             | 2,069,389            | 2,022,721             | (16.3)                              | (14.4)                   |
| Total deposits  | 6,607,674             | 6,659,878            | 6,497,311             | (0.8)                               | 1.7                      |
| Repurchase agreements                                 | 110,153               | 143,549              | 199,785               | (23.3)                              | (44.9)                   |
| Federal funds purchased                               | -                     | 1                    | -                     | N/M                                 | N/M                      |
| Federal Home Loan Bank<br>("FHLB") advances           | 151,848               | 137,500              | 138,120               | 10.4                                | 9.9                      |
| Total borrowed funds                                  | 262,001               | 281,050              | 337,905               | (6.8)                               | (22.5)                   |
| Subordinated debt                                     | 137,749               | 137,743              | 137,740               | 0.0                                 | 0.0                      |
| Total funding sources                                 | \$ 7,007,424          | \$ 7,078,671         | \$ 6,972,956          | (1.0)                               | 0.5                      |
| Average interest rate paid on<br>borrowed funds       | 1.07%                 | 1.00%                | 0.94%                 |                                     |                          |
| Weighted-average maturity of<br>FHLB<br>advances      | 8.8 months            | 27.6<br>months       | 30.6<br>months        |                                     |                          |
| Weighted-average interest rate of<br>FHLB<br>advances | 0.92%                 | 1.95%                | 1.95%                 |                                     |                          |

N/M – Not meaningful.

Average funding sources for third quarter 2011 declined \$71.2 million, or 1.0%, from fourth quarter 2010 due to a \$338.0 million, or 16.3%, decline in time deposits, partially offset by a \$285.8 million, or 6.2%, increase in transactional deposits. The reduction in time deposits from fourth quarter 2010 to third quarter 2011 resulted principally from a reduction in retail time deposits, as we sought to reduce our funding from more expensive single

service, non-core customers.

Average funding sources increased \$34.5 million, or 0.5%, from third quarter 2010 to third quarter 2011. The growth during this period resulted from a \$401.7 million, or 9.0%, increase in average transactional deposits, partially offset by a \$291.3 million, or 14.4%, decline in average time deposits. The addition of core transactional deposits reflected ongoing sales efforts, customers' liquidity preferences in today's low interest rate environment, and a shift in customer funds from repurchase agreements to demand deposits, which are FDIC insured.

Table 17  
Borrowed Funds  
(Dollar amounts in thousands)

|  | September 30, 2011 |          | September 30, 2010 |          |
|--|--------------------|----------|--------------------|----------|
|  | Amount             | Rate (%) | Amount             | Rate (%) |
| <b>At period-end:</b>  |                    |          |                    |          |
| Securities sold under agreements to repurchase                             | \$ 83,929          | 0.02     | \$ 185,577         | 0.10     |
| FHLB advances  | 302,500            | 0.92     | 137,500            | 1.95     |
| Total borrowed funds   | \$ 386,429         | 0.72     | \$ 323,077         | 0.89     |
| <b>Average for the year-to-date period:</b>                                |                    |          |                    |          |
| Securities sold under agreements to repurchase                             | \$ 126,896         | 0.02     | \$ 208,095         | 0.16     |
| Federal funds purchased  | 806                | 0.17     | 5,843              | 0.14     |
| FHLB advances  | 142,335            | 1.93     | 144,457            | 2.08     |
| Federal term auction facilities  | -                  | -        | 27,106             | 0.25     |
| Total borrowed funds   | \$ 270,037         | 1.03     | \$ 385,501         | 0.89     |
| <b>Maximum amount outstanding at the end of any day during the period:</b> |                    |          |                    |          |
| Securities sold under agreements to repurchase                             | \$ 174,810         |          | \$ 683,685         |          |
| Federal funds purchased  | 175,000            |          | 60,000             |          |
| FHLB advances  | 302,500            |          | 272,802            |          |
| Federal term auction facilities  | 1                  |          | 300,000            |          |

Securities sold under repurchase agreements declined from September 30, 2010 to September 30, 2011 as certain municipal customers shifted balances into demand deposits, which are insured by the FDIC.

In September 2011, the Company obtained a short-term \$165.0 million FHLB advance with an interest rate of 6 basis points, which drove the increase in FHLB advances from September 30, 2010 to September 30, 2011. The proceeds were used to purchase short-term investments, which earn a higher interest rate than the advance.

Average borrowed funds totaled \$270.0 million for the first nine months of 2011, decreasing \$115.5 million, or 30.0%, from the first nine months of 2010. The increase in core transactional deposits during this period reduced our reliance on these higher-costing funds.

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

## MANAGEMENT OF CAPITAL

### Approval to Redeem Preferred Stock

In October 2011, we received approval from the United States Department of the Treasury (the "Treasury") to redeem all of the \$193.0 million of Series B preferred stock issued to the Treasury in December 2008 under the U.S. government's Troubled Asset Relief Program ("TARP"). There are no conditions or qualifications of any kind associated

with the approval. We anticipate that the redemption will be funded through a combination of existing liquid assets and proceeds from the completion of one or more debt offerings totaling approximately \$115 million. The size, structure, and timing of any debt offering will depend upon overall market conditions.

Following redemption, we expect to enter into negotiations to repurchase the warrant held by the Treasury to purchase 1.3 million shares of our common stock at an exercise price of \$22.18 per share. For additional discussion of the preferred share issuance, refer to Note 12 to the Consolidated Financial Statements of our 2010 Form 10-K.

#### Capital Measurements

The Company and the Bank are subject to various capital requirements established and administered by federal banking agencies. Under capital adequacy guidelines, the Company and the Bank must meet specific guidelines that involve

quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators regarding components of capital and assets, risk weightings, and other factors. As defined in the regulations, quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to adjusted average assets. Failure to meet minimum capital requirements could result in actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. As of December 31, 2011, the Company and the Bank met all capital adequacy requirements to which they are subject.

The Federal Reserve Board ("FRB"), the primary regulator of the Company and the Bank, establishes minimum capital requirements that must be met by member institutions. We have managed our capital ratios to consistently maintain such measurements in excess of the FRB minimum levels to be considered "well-capitalized," which is the highest capital category established.

Capital resources of financial institutions are also regularly measured by tangible equity ratios, which are non-GAAP measures. Tangible common equity equals total shareholders' equity as defined by GAAP less goodwill and other intangible assets and preferred stock, which does not benefit common shareholders. Tangible assets equal total assets as defined by GAAP less goodwill and other intangible assets. The tangible equity ratios are a valuable indicator of a financial institution's capital strength since they eliminate intangible assets from shareholders' equity.

The following table presents our consolidated measures of capital as of the dates presented and the capital guidelines established by the FRB to be considered "well-capitalized."



Table 18  
Capital Measurements  
(Dollar amounts in thousands)

|  | September<br>30,<br>2011 | December<br>31,<br>2010 | September<br>30,<br>2010 | Regulatory<br>Minimum<br>For<br>“Well-<br>Capitalized” | Excess Over<br>Required Minimums<br>at September 30, 2011 |            |
|--|--------------------------|-------------------------|--------------------------|--|---|------------|
| Regulatory capital ratios:   |                          |                         |                          |  |   |            |
| Total capital to risk-weighted assets  | 16.81%                   | 16.27%                  | 16.91%                   | 10.00%   | 68%   | \$ 425,425 |
| Tier 1 capital to risk-weighted assets   | 14.74%                   | 14.20%                  | 14.86%                   | 6.00%  | 146%  | \$ 545,911 |
| Tier 1 leverage to average assets  | 11.64%                   | 11.21%                  | 12.05%                   | 5.00%  | 133%  | \$ 525,073 |
| Regulatory capital ratios, excluding preferred stock (1):                                  |                          |                         |                          |  |   |            |
| Total capital to risk-weighted assets  | 13.72%                   | 13.21%                  | 13.90%                   | 10.00%   | 37%   | \$ 232,425 |
| Tier 1 capital to risk-weighted assets   | 11.65%                   | 11.15%                  | 11.85%                   | 6.00%  | 94%   | \$ 352,911 |
| Tier 1 leverage to average assets  | 9.20%                    | 8.80%                   | 9.61%                    | 5.00%  | 84%   | \$ 332,073 |
| Tier 1 common capital to risk-weighted assets (2) (3)                                      | 10.29%                   | 9.81%                   | 10.53%                   | N/A (3)  | N/A (3)   | N/A (3)    |
| Tangible common equity ratios:   |                          |                         |                          |  |   |            |
| Tangible common equity to tangible assets  | 8.35%                    | 8.06%                   | 8.41%                    | N/A (3)  | N/A (3)   | N/A (3)    |
| Tangible common equity, excluding other accumulated comprehensive loss, to tangible assets | 8.49%                    | 8.41%                   | 8.53%                    | N/A (3)  | N/A (3)   | N/A (3)    |
| Tangible common equity to risk-weighted assets   | 10.83%                   | 10.02%                  | 10.60%                   | N/A (3)  | N/A (3)   | N/A (3)    |
| Regulatory capital ratios, Bank  |                          |                         |                          |  |   |            |

|  |        |        |        |        |      |            |
|--|--------|--------|--------|--------|------|------------|
| only (4):                                    |        |        |        |        |      |            |
| Total capital to<br>risk-weighted<br>assets  | 14.84% | 13.87% | 13.85% | 10.00% | 48%  | \$ 296,399 |
| Tier 1 capital to<br>risk-weighted<br>assets | 13.58% | 12.61% | 12.59% | 6.00%  | 126% | \$ 464,017 |
| Tier 1 leverage to average<br>assets         | 10.63% | 9.88%  | 10.16% | 5.00%  | 113% | \$ 440,466 |

(1) These ratios exclude the impact of \$193.0 million in preferred stock.

(2) Excludes the impact of preferred shares and trust-preferred securities.

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

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

All regulatory mandated ratios for characterization as “well-capitalized” were exceeded as of September 30, 2011.

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

Table 19  
Reconciliation of Capital Components to Regulatory Requirements and GAAP  
(Dollar amounts in thousands)

|  | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|--|-----------------------|----------------------|-----------------------|
| <b>Reconciliation of Capital Components to Regulatory Requirements</b> |                       |                      |                       |
| Total regulatory capital, as defined in federal regulations            | \$ 1,049,832          | \$ 1,027,761         | \$ 1,084,722          |
| Preferred equity   | (193,000)             | (193,000)            | (193,000)             |
| Total regulatory capital, excluding preferred stock                    | \$ 856,832            | \$ 834,761           | \$ 891,722            |
| Tier 1 capital, as defined in federal regulations                      | \$ 920,555            | \$ 897,410           | \$ 953,158            |
| Preferred equity   | (193,000)             | (193,000)            | (193,000)             |
| Tier 1 regulatory capital, excluding preferred stock                   | 727,555               | 704,410              | 760,158               |
| Trust preferred securities included in Tier 1 capital                  | (84,730)              | (84,730)             | (84,730)              |
| Tier 1 common capital  | \$ 642,825            | \$ 619,680           | \$ 675,428            |
| Risk-weighted assets, as defined in federal regulations                | \$ 6,244,066          | \$ 6,317,744         | \$ 6,416,084          |
| Average assets, as defined in federal regulations                      | \$ 7,909,645          | \$ 8,002,186         | \$ 7,909,998          |
| Total capital to risk-weighted assets                                  | 16.81%                | 16.27%               | 16.91%                |
| Total capital excluding preferred stock, to risk-weighted assets       | 13.72%                | 13.21%               | 13.90%                |
| Tier 1 capital to risk-weighted assets                                 | 14.74%                | 14.20%               | 14.86%                |
| Tier 1 capital, excluding preferred stock, to risk-weighted assets     | 11.65%                | 11.15%               | 11.85%                |
| Tier 1 common capital to risk-weighted assets                          | 10.29%                | 9.81%                | 10.53%                |
| Tier 1 leverage to average assets                                      | 11.64%                | 11.21%               | 12.05%                |
| Tier 1 leverage, excluding preferred stock, to average assets          | 9.20%                 | 8.80%                | 9.61%                 |
| <b>Reconciliation of Capital Components to GAAP</b>                    |                       |                      |                       |
| Total stockholder's equity   | \$ 1,152,433          | \$ 1,112,045         | \$ 1,160,059          |
| Preferred equity   | (193,000)             | (193,000)            | (193,000)             |
| Common equity  | 959,433               | 919,045              | 967,059               |
| Goodwill and other intangible assets                                   | (283,163)             | (286,033)            | (287,173)             |
| Tangible common equity   | 676,270               | 633,012              | 679,886               |
| Accumulated other comprehensive loss                                   | 11,413                | 27,739               | 9,203                 |
| Tangible common equity, excluding accumulated other comprehensive loss | \$ 687,683            | \$ 660,751           | \$ 689,089            |
| Total assets   | \$ 8,380,174          | \$ 8,138,302         | \$ 8,367,823          |
| Goodwill and other intangible assets                                   | (283,163)             | (286,033)            | (287,173)             |

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|  |    |           |    |           |    |           |
|--|----|-----------|----|-----------|----|-----------|
| Tangible assets  | \$ | 8,097,011 | \$ | 7,852,269 | \$ | 8,080,650 |
| Tangible common equity to tangible assets  |    | 8.35%     |    | 8.06%     |    | 8.41%     |
| Tangible common equity, excluding<br>accumulated other<br>comprehensive loss, to tangible assets |    | 8.49%     |    | 8.41%     |    | 8.53%     |
| Tangible common equity to risk-weighted<br>assets  |    | 10.83%    |    | 10.02%    |    | 10.60%    |

CRITICAL ACCOUNTING POLICIES

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

We have numerous accounting policies, of which the most significant are presented in Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements of our 2010 10-K. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has determined that our accounting policies with respect to the allowance for credit losses, evaluation of impairment of securities, and income taxes are the accounting areas requiring subjective or complex judgments that are most important to our financial position and results of operations, and, therefore, are considered to be critical accounting policies, as discussed in our 2010 10-K.

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

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. Interest rate risk is our primary market risk and is the result of repricing, basis, and option risk. A description and analysis of our interest rate risk management policies is included in Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," contained in our 2010 10-K.

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

#### Net Interest Income Sensitivity

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

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

We monitor and manage interest rate risk within approved policy limits. Our current interest rate risk policy limits are determined by measuring the change in net interest income over a 12-month horizon assuming a 200 basis point gradual increase and decrease in all interest rates compared to net interest income in an unchanging interest rate environment. Current policy limits this exposure to plus or minus 8% of the anticipated level of net interest income over the corresponding 12-month horizon assuming no change in current interest rates. We were within policy limits

as of September 30, 2011 and December 31, 2010.

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

|                     | Gradual Change in Rates (1) |          | Immediate Change in Rates |           |          |           |
|---------------------|-----------------------------|----------|---------------------------|-----------|----------|-----------|
|                     | -200                        | +200     | -200                      | +200      | -300 (2) | +300      |
| September 30, 2011: |                             |          |                           |           |          |           |
| Dollar change       | \$ (6,292)                  | \$ 7,845 | \$ (7,480)                | \$ 12,521 | \$ N/M   | \$ 24,309 |
| Percent change      | -2.3%                       | +2.9%    | -2.7%                     | +4.6%     | N/M      | +8.8%     |
| December 31, 2010:  |                             |          |                           |           |          |           |
| Dollar change       | \$ (13,609)                 | \$ 7,393 | \$ (18,736)               | \$ 10,072 | \$ N/M   | \$ 21,148 |
| Percent change      | -4.7%                       | +2.5%    | -6.4%                     | +3.4%     | N/M      | +7.2%     |

(1)The gradual change in rates reflects an assumed uniform change in interest rates across all terms of maturity that occurs in equal steps over a six-month time horizon.

(2)N/M – Due to the low level of interest rates as of September 30, 2011 and December 31, 2010, in management’s judgment, an assumed 300 basis point drop in interest rates was deemed not meaningful.

Overall, in rising interest rate scenarios, interest rate risk volatility is more positive at September 30, 2011 than at December 31, 2010 and in declining interest rate scenarios, interest rate risk volatility is less negative at September 30, 2011 compared to December 31, 2010. The slight increase in positive interest rate volatility assuming rising rates is due to a lengthening of the aggregate maturity of retail time deposits. As our loan portfolio continues to reprice in the low interest rate environment, the exposure to further declines in interest rates is reduced and drives the decrease in net interest income volatility under falling interest rate scenarios.

#### Economic Value of Equity

In addition to the simulation analysis, management uses an economic value of equity sensitivity technique to understand the risk in both shorter-term and longer-term positions and to study the impact of longer-term cash flows on earnings and capital. In determining the economic value of equity, we discount present values of expected cash flows on all assets, liabilities, and off-balance sheet contracts under different interest rate scenarios. The discounted present value of all cash flows represents our economic value of equity. Economic value of equity does not represent the true fair value of asset, liability, or derivative positions because certain factors are not considered, such as credit risk, liquidity risk, and the impact of future changes to the balance sheet. Our policy guidelines call for preventative measures to be taken in the event that an immediate increase or decrease in interest rates of 200 basis points is estimated to reduce the economic value of equity by more than 15%.

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

|                     | Immediate Change in Rates |            |
|---------------------|---------------------------|------------|
|                     | -200                      | +200       |
| September 30, 2011: |                           |            |
| Dollar change       | \$ (194,962)              | \$ 134,021 |
| Percent change      | -13.0%                    | +9.0%      |
| December 31, 2010:  |                           |            |
| Dollar change       | \$ (148,859)              | \$ 61,708  |

|                |       |       |
|----------------|-------|-------|
| Percent change | -9.2% | +3.8% |
|----------------|-------|-------|

As of September 30, 2011, the estimated sensitivity of the economic value of equity to changes in rising interest rates is more positive compared to December 31, 2010, and the estimated sensitivity to falling rates is more negative compared to December 31, 2010. The duration of the investment portfolio is lower at September 30, 2011 compared to December 31, 2010 due to a decline in market interest rates and balance sheet strategies implemented during the nine months ended September 30, 2011. The impact of these factors resulted in a reduction of the amount of negative price volatility as interest rates rise and reduced the amount of positive price volatility as rates decline.

#### ITEM 4. CONTROLS AND PROCEDURES

At the end of the period covered by this report, (the "Evaluation Date"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and its Executive Vice President and Chief Financial Officer, of the effectiveness of the design and



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

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

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

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

### ITEM 1A. RISK FACTORS

The Company provided a discussion of certain risks and uncertainties faced by the Company in its Annual Report on Form 10-K for the year ended December 31, 2010. However, these factors may not be the only risks or uncertainties the Company faces.

During 2011, the Company has identified the following additional risk factors:

Recent and/or future U.S. credit downgrades or changes in outlook by the major credit rating agencies may have an adverse effect on financial markets, including financial institutions and the financial industry.

Despite the recent actions taken by the U.S. government to raise the U.S. debt limit and address budget deficit concerns, on August 5, 2011, Standard and Poor's Rating Services ("S & P") downgraded the U.S.'s credit rating from AAA to AA+ for the first time in history. It is difficult to predict the effect of this action, or of any future downgrades

or changes in outlook by S & P or either of the other two major credit rating agencies. However, these events could impact the trading market for U.S. government securities, including agency securities, and the securities markets more broadly, and consequently, could impact the value and liquidity of financial assets, including assets in the Company's investment and bank-owned life insurance portfolios. These actions could also create broader financial turmoil and uncertainty, which may negatively affect the global banking system and limit the availability of funding, including borrowings under repurchase arrangements, at reasonable terms. In turn, this could have a material adverse effect on the Company's liquidity, financial condition, and results of operations.

The Company's business may be adversely affected in the future by the implementation of rules establishing standards for debit card interchange fees.

On June 29, 2011, the Federal Reserve Board approved final rules establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions as required by the Dodd-Frank Wall Street Reform and

Consumer Protection Act. A debit card interchange fee is a fee paid by a merchant's bank to the customer's bank for the use of the debit card.

Under the final rule, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction will be 21 cents plus an amount equal to five basis points of the transaction value. In addition, under an interim final rule issued concurrently with the final rule, an additional one cent per transaction "fraud prevention adjustment" to the interchange fee is available to those issuers that comply with certain standards outlined by the Board. The effective date for the cap on interchange fees is October 1, 2011.

Currently, the Company is exempt from the interchange fee cap under the "small issuer" exemption, which applies to any debit card issuer with total worldwide assets of less than \$10 billion as of the end of the previous calendar year. In the event the Company's assets reach \$10 billion or more, it will become subject to the interchange fee limitations beginning July 1 of the following year, and the fees the Company may receive for an electronic debit transaction will be capped at the statutory limit.

Although the rule applies only to larger institutions and does not currently apply to the Company, future industry responses and developments relating to this rule that are currently unknown may affect the Company's financial condition and results of operations in ways and to a degree that it cannot currently predict including any impact on its future revenue.

The Company's business may be adversely affected in the future by the effect of troubled foreign economies on money market funds.

Federal regulators are closely monitoring U.S. money market funds' exposure to commercial paper issued by European banks. Approximately one-half of all prime money market funds are invested in European bank commercial paper and those European banks are heavily invested in government bonds issued by the troubled economies of Greece, Portugal, and Spain. A default by any of those countries could have a broad negative effect on U.S. and world economies. The Company cannot currently predict the current or future impact this occurrence may have on its financial condition or results of operations.

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

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

The 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 September 30, 2011. The repurchase program has no set expiration or termination date. Any repurchases are subject to limitations imposed as part of the the U.S. Treasury's Capital Purchase Plan under the Emergency Economic Stabilization Act of 2008. The Company did not purchase any of its equity securities during the quarter ended September 30, 2011.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

75

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ITEM 6. EXHIBITS

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

(1)Furnished, not filed.

SIGNATURES

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

First  
Midwest Bancorp, Inc.

/s/

PAUL F.  
CLEMENS

Paul F. Clemens  
Executive Vice  
President, Chief Financial  
Officer,

and

Principal Accounting  
Officer\*

Date: October 28, 2011

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

