Antal James
Form 4
May 14, 2009

FORM 4

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

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Antal James

(Last) (First) (Middle)

C/O SIGA TECHNOLOGIES, INC., 420 LEXINGTON AVENUE, SUITE 408

(Street)

NEW YORK, NY 10170

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SIGA TECHNOLOGIES INC [SIGA]

3. Date of Earliest Transaction (Month/Day/Year)
05/13/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Option (Right to buy)	$ 6.17	05/13/2009		A		10,000		05/13/2009	05/13/2019	Common Stock, par value $.0001 per share	10,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Antal James C/O SIGA TECHNOLOGIES, INC. 420 LEXINGTON AVENUE, SUITE 408 NEW YORK, NY 10170	X			

Signatures

/s/ James J. Antal	05/14/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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(Do not check if a smaller reporting company)

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

As of November 8, 2013, there were 75,071,717 shares of $.01 par value common stock outstanding.

FIRST MIDWEST BANCORP, INC.

FORM 10-Q

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Explanation of Responses:

PART I. FINANCIAL INFORMATION (Unaudited)

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	$155,075	$149,420
Interest-bearing deposits in other banks	744,163	566,846
Trading securities, at fair value	16,443	14,162
Securities available-for-sale, at fair value	1,162,911	1,082,403
Securities held-to-maturity, at amortized cost	29,847	34,295
Federal Home Loan Bank (“FHLB”) and Federal Reserve Bank stock, at cost	35,161	47,232
Loans, excluding covered loans	5,448,929	5,189,676
Covered loans	153,305	197,894
Allowance for loan and covered loan losses	(90,828)	(99,446)
Net loans	5,511,406	5,288,124
Other real estate owned (“OREO”), excluding covered OREO	35,616	39,953
Covered OREO	10,477	13,123
Federal Deposit Insurance Corporation (“FDIC”) indemnification asset	18,078	37,051
Premises, furniture, and equipment	118,664	121,596
Accrued interest receivable	28,155	27,535
Investment in bank-owned life insurance (“BOLI”)	193,979	206,405
Goodwill and other intangible assets	277,187	281,059
Other assets	180,751	190,635
Total assets	$8,517,913	$8,099,839
Liabilities		
Noninterest-bearing deposits	$2,020,956	$1,762,903
Interest-bearing deposits	4,982,252	4,909,352
Total deposits	7,003,208	6,672,255
Borrowed funds	212,058	185,984
Senior and subordinated debt	214,876	214,779
Accrued interest payable and other liabilities	101,046	85,928
Total liabilities	7,531,188	7,158,946
Stockholders’ Equity		
Common stock	858	858
Additional paid-in capital	412,677	418,318
Retained earnings	839,835	786,453
Accumulated other comprehensive loss, net of tax	(26,057)	(15,660)
Treasury stock, at cost	(240,588)	(249,076)
Total stockholders’ equity	986,725	940,893
Total liabilities and stockholders’ equity	$8,517,913	$8,099,839
Per Common Share Data		
Par Value	$0.01	$0.01
Shares authorized	100,000	100,000

Shares issued	85,787	85,787
Shares outstanding	75,074	74,840
Treasury shares	10,713	10,947

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest Income				
Loans, excluding covered loans	$60,614	$63,672	$179,156	$187,156
Covered loans	3,142	3,223	10,742	11,898
Investment securities	7,742	8,058	22,755	25,406
Other short-term investments	831	631	2,474	1,910
Total interest income	72,329	75,584	215,127	226,370
Interest Expense				
Deposits	2,837	4,126	9,160	14,317
Borrowed funds	390	507	1,217	1,512
Senior and subordinated debt	3,436	3,691	10,306	11,395
Total interest expense	6,663	8,324	20,683	27,224
Net interest income	65,666	67,260	194,444	199,146
Provision for loan and covered loan losses	4,770	111,791	16,257	152,459
Net interest income (expense) after provision for loan and covered loan losses	60,896	(44,531)	178,187	46,687
Noninterest Income				
Service charges on deposit accounts	9,472	9,502	27,267	27,010
Card-based fees	5,509	5,246	16,132	15,578
Wealth management fees	6,018	5,415	17,983	16,201
Mortgage banking income	1,273	196	4,251	360
Merchant servicing fees	2,915	2,849	8,368	8,079
Other service charges, commissions, and fees	2,617	1,142	5,569	3,365
Net securities gains (losses)	33,801	(217)	34,017	(1,009)
BOLI (loss) income	(13,028)	300	(12,428)	952
Gain on termination of FHLB forward commitments	7,829	—	7,829	—
Other income	1,682	4,701	4,116	7,324
Total noninterest income	58,088	29,134	113,104	77,860
Noninterest Expense				
Salaries and wages	28,257	26,881	84,040	77,990
Retirement and other employee benefits	6,013	6,230	19,720	18,737
Net occupancy and equipment expense	7,982	8,108	23,922	23,952
Technology and related costs	2,984	2,906	8,351	8,615
Professional services	5,517	6,665	16,330	19,199
Net OREO expense	2,849	3,208	5,732	9,196
FDIC premiums	1,734	1,785	5,180	5,163
Other expenses	9,366	14,340	28,668	31,041
Total noninterest expense	64,702	70,123	191,943	193,893
Income (loss) before income tax expense (benefit)	54,282	(85,520)	99,348	(69,346)
Income tax expense (benefit)	24,959	(36,993)	39,207	(35,076)
Net income (loss)	29,323	(48,527)	60,141	(34,270)
Net (income) loss applicable to non-vested restricted shares	(416)	715	(847)	500

Net income (loss) applicable to common shares	$28,907	$(47,812)	$59,294	$(33,770)
Per Common Share Data				
Basic earnings (loss) per common share	$0.39	$(0.65)	$0.80	$(0.46)
Diluted earnings (loss) per common share	$0.39	$(0.65)	$0.80	$(0.46)
Dividends declared per common share	$0.04	$0.01	$0.09	$0.03
Weighted-average common shares outstanding	74,023	73,742	73,969	73,636
Weighted-average diluted common shares outstanding	74,034	73,742	73,978	73,636

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	$29,323	$(48,527)	$60,141	$(34,270)
Available-for-sale securities				
Unrealized holding gains:				
Before tax	6,211	4,065	5,359	5,555
Tax effect	(1,993)	(1,574)	(2,151)	(2,123)
Net of tax	4,218	2,491	3,208	3,432
Reclassification of net gains (losses) included in net income:				
Before tax	33,801	(217)	34,017	(1,009)
Tax effect	(13,825)	89	(13,913)	413
Net of tax	19,976	(128)	20,104	(596)
Net unrealized holding (losses) gains	(15,758)	2,619	(16,896)	4,028
Unrecognized net pension costs				
Unrealized holding gains:				
Before tax	—	—	10,997	—
Tax effect	—	—	(4,498)	—
Net of tax	—	—	6,499	—
Total other comprehensive (loss) income	(15,758)	2,619	(10,397)	4,028
Total comprehensive income (loss)	$13,565	$(45,908)	$49,744	$(30,242)

	Accumulated Unrealized (Loss) Gain on Securities Available-for-Sale	Unrecognized Net Pension Costs	Total Accumulated Other Comprehensive (Loss) Income
Balance at January 1, 2012	$(354)	$(12,922)	$(13,276)
Other comprehensive income	4,028	—	4,028
Balance at September 30, 2012	$3,674	$(12,922)	$(9,248)
Balance at January 1, 2013	$1,115	$(16,775)	$(15,660)
Other comprehensive (loss) income	(16,896)	6,499	(10,397)
Balance at September 30, 2013	$(15,781)	$(10,276)	$(26,057)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance at January 1, 2012	74,435	$858	$428,001	$810,487	$(13,276)	$(263,483)	$962,587
Comprehensive income	—	—	—	(34,270)	4,028	—	(30,242)
Common dividends declared ($0.03 per common share)	—	—	—	(2,241)	—	—	(2,241)
Share-based compensation expense	—	—	4,568	—	—	—	4,568
Restricted stock activity	398	—	(15,256)	—	—	13,980	(1,276)
Treasury stock (purchased for) issued to benefit plans	(2)	—	(68)	—	—	107	39
Balance at September 30, 2012	74,831	$858	$417,245	$773,976	$(9,248)	$(249,396)	$933,435
Balance at January 1, 2013	74,840	$858	$418,318	$786,453	$(15,660)	$(249,076)	$940,893
Comprehensive income	—	—	—	60,141	(10,397)	—	49,744
Common dividends declared ($0.09 per common share)	—	—	—	(6,759)	—	—	(6,759)
Share-based compensation expense	—	—	4,366	—	—	—	4,366
Restricted stock activity	236	—	(9,915)	—	—	8,379	(1,536)
Treasury stock (purchased for) issued to benefit plans	(2)	—	(92)	—	—	109	17
Balance at September 30, 2013	75,074	$858	$412,677	$839,835	$(26,057)	$(240,588)	$986,725

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2013	2012
Net cash provided by operating activities	$104,383	$125,225
Investing Activities		
Proceeds from maturities, repayments, and calls of securities available-for-sale	178,256	289,839
Proceeds from sales of securities available-for-sale	69,428	50,633
Purchases of securities available-for-sale	(326,143)	(515,064)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	7,084	52,107
Purchases of securities held-to-maturity	(2,636)	(33,593)
Proceeds from the redemption of FHLB stock	12,071	11,918
Net increase in loans	(233,844)	(310,269)
(Purchases) of BOLI, net of proceeds from claims	(2)	1,144
Proceeds from sales of OREO	20,715	42,379
Proceeds from sales of premises, furniture, and equipment	1,425	3
Purchases of premises, furniture, and equipment	(6,586)	(6,298)
Proceeds received from the FDIC in an FDIC-assisted transaction	—	21,996
Other cash proceeds received in an FDIC-assisted transaction	—	4,984
Net cash used in investing activities	(280,232)	(390,221)
Financing Activities		
Net increase in deposit accounts	330,953	197,162
Net increase (decrease) in borrowed funds	26,074	(31,636)
Payments for the retirement of subordinated debt	—	(20,004)
Proceeds received from the termination of FHLB forward commitments	7,829	—
Cash dividends paid	(4,502)	(2,238)
Restricted stock activity	(1,588)	(1,414)
Excess tax benefit (expense) related to share-based compensation	55	(30)
Net cash provided by financing activities	358,821	141,840
Net increase (decrease) in cash and cash equivalents	182,972	(123,156)
Cash and cash equivalents at beginning of period	716,266	641,530
Cash and cash equivalents at end of period	$899,238	$518,374
Supplemental Disclosures:		
Non-cash transfers of loans to OREO	$15,189	$33,383
Non-cash transfer of loans held-for-investment to loans held-for-sale	1,275	92,292
Non-cash transfer of loans held-for-sale to loans held-for-investment	—	1,500
Non-cash transfer of an investment from other assets to securities available-for-sale	2,787	—
Dividends declared but unpaid	3,006	749

See accompanying notes to the unaudited condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying unaudited condensed consolidated interim financial statements of First Midwest Bancorp, Inc. (the "Company"), a Delaware corporation, were prepared in accordance with the rules and regulations of the SEC for quarterly reports on Form 10-Q and reflect all adjustments that management deems necessary for the fair presentation of the financial position and results of operations for the periods presented. The results of operations for the quarter and nine-month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") and general practices within the banking industry. The accompanying quarterly statements do not include certain information and footnote disclosures required by GAAP for complete annual financial statements. Therefore, these financial statements should be read in conjunction with the Company's 2012 Annual Report on Form 10-K ("2012 10-K"). The Company uses the accrual basis of accounting for financial reporting purposes. Certain reclassifications were made to prior year amounts to conform to the current year presentation.

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

Principles of Consolidation – The accompanying consolidated financial statements include the financial position and results of operations of the Company and its subsidiaries after elimination of all significant intercompany accounts and transactions. Assets held in a fiduciary or agency capacity are not assets of the Company or its subsidiaries and are not included in the consolidated financial statements.

The Company owns interests in certain variable interest entities ("VIEs") as described in Note 21, "Variable Interest Entities," in the Company's 2012 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 the characteristics associated with owning a controlling financial interest. The VIEs are not consolidated in the Company's financial statements since the Company is not the primary beneficiary of any of the VIEs.

The accounting policies related to loans, the allowance for credit losses, the FDIC indemnification asset, and derivative financial instruments are presented below. For a summary of all other significant accounting policies, please refer to Note 1, "Summary of Significant Accounting Policies," in the Company's 2012 10-K.

Loans – Loans held-for-investment are loans that the Company intends to hold until they are paid in full and are carried at the principal amount outstanding, including certain net deferred loan origination fees. Interest income on loans is accrued based on principal amounts outstanding. Loan origination fees, commitment fees, and certain direct loan origination costs are deferred, and the net amount is amortized as a yield adjustment over the contractual life of the related loans or commitments and included in interest income. Fees related to standby letters of credit are amortized into fee income over the contractual life of the commitment. Other credit-related fees are recognized as fee income when earned. Loans held-for-sale are carried at the lower of aggregate cost or fair value and included in other assets in the Consolidated Statements of Financial Condition.

Purchased Impaired Loans – Purchased impaired loans are recorded at fair value on the acquisition date and are accounted for prospectively based on estimates of expected cash flows. No allowance for credit losses is recorded on these loans at the acquisition date. To estimate the fair value, 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. The fair values of larger balance commercial loans are estimated 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 the difference between contractually required payments and the cash flows expected to be collected at acquisition.

Subsequent increases in cash flows are recognized as interest income prospectively. The present value of any decreases in expected cash flows is recognized by recording a charge-off through the allowance for loan and covered loan losses or establishing an allowance for loan and covered loan losses.

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Non-accrual Loans – Generally, corporate loans are placed on non-accrual status (i) when either principal or interest payments become 90 days or more past due based on contractual terms unless the loan is sufficiently collateralized such that full repayment of both principal and interest is expected and is in the process of collection within a reasonable period or (ii) when an individual analysis of a borrower's creditworthiness indicates a credit should be placed on non-accrual status whether or not the loan is 90 days or more past due. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for loan losses. After the loan is placed on non-accrual, all debt service payments are applied to the principal on the loan. Future interest income may only be recorded on a cash basis after recovery of principal is reasonably assured. Non-accrual loans are returned to accrual status when the financial position of the borrower and other relevant factors indicate that the Company will collect all principal and interest.

Commercial loans and loans secured by real estate are charged-off when deemed uncollectible. A loss is recorded if the net realizable value of the underlying collateral is less than the outstanding principal and interest. 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 usually charged-off no later than the end of the month in which the loan becomes 120 days past due.

Purchased impaired loans are generally considered accruing loans unless reasonable estimates of the timing and amount of future cash flows cannot be determined. Loans without reasonable cash flow estimates are classified as non-accrual loans, and interest income is not recognized on those loans until the timing and amount of the future cash flows can be reasonably determined.

Troubled Debt Restructurings ("TDRs") – A restructuring is considered a TDR when (i) the borrower is experiencing financial difficulties and (ii) the creditor grants a concession, such as forgiveness of principal, reduction of the interest rate, changes in payments, or extension of the maturity date. Loans are not classified as TDRs when the modification is short-term or results in an insignificant delay in payments. The Company's TDRs are determined on a case-by-case basis.

The Company does not accrue interest on a TDR unless it believes collection of all principal and interest under the modified terms is reasonably assured. For a TDR to begin accruing interest, the borrower must demonstrate both some level of past performance and the future capacity to perform under the modified terms. Generally, six months of consecutive payment performance under the restructured terms is required before a TDR is returned to accrual status. However, the period could vary depending on the individual facts and circumstances of the loan. An evaluation of the borrower's current creditworthiness is used to assess the borrower's capacity to repay the loan under the modified terms. This evaluation includes an estimate of expected cash flows, evidence of strong financial position, and estimates of the value of collateral, if applicable. However, these TDRs continue to be separately reported as restructured until after the calendar year in which the restructuring occurred. If the loan was restructured at below market rates and terms, it continues to be separately reported as restructured until it is paid in full or charged-off.

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

A loan is considered impaired when it is probable that the Company will not collect all contractual principal and interest based on current information and events. Impaired loans are classified as non-accrual and are exclusive of smaller homogeneous loans, such as home equity, 1-4 family mortgages, and installment loans. After a loan is designated as impaired, all debt service payments are applied to the principal of the loan. Future interest income may only be recorded on a cash basis after recovery of principal is reasonably assured.

Impaired loans with balances under a specified threshold are not individually evaluated for impairment. For all other impaired loans, impairment is measured by comparing the estimated value of the loan to the recorded book value. The value of collateral-dependent loans is based on the fair value of the underlying collateral, less costs to sell. The value of other loans is measured using the present value of expected future cash flows discounted at the loan's initial effective interest rate. All impaired loans are included in non-performing assets. Purchased impaired loans are not reported as impaired loans provided that estimates of the timing and amount of future cash flows can be reasonably determined.

90-Days Past Due Loans –The Company's accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is sufficiently collateralized and in the process of renewal or collection.

Allowance for Credit Losses – The allowance for credit losses is comprised of the allowance for loan losses, the allowance for covered 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 subjective since it requires significant estimates and management judgment, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans, consideration of current economic trends, and other factors.

Loans deemed to be uncollectible are charged-off against the allowance for loan and covered loan losses, while recoveries of amounts previously charged-off are credited to the allowance for loan and covered loan losses. Additions to the allowance for loan and covered loan losses are charged to expense through the provision for loan and covered loan losses. The amount of provision depends on a number of factors, including net charge-off levels, loan growth, changes in the composition of the loan portfolio, and the Company's assessment of the allowance for loan and covered loan losses based on the methodology discussed below.

Allowance for Loan Losses – The allowance for loan losses consists of (i) specific reserves established for probable losses on individual loans where the recorded investment exceeds the value, (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. If the value of an impaired loan is less than the recorded book value, the Company either establishes a valuation allowance (i.e., a specific reserve) equal to the excess of the book value over the value of the loan as a component of the allowance for loan losses or charges off the amount if it is a confirmed loss.

The general reserve component is based on a loss migration analysis, which examines actual loss experience for a rolling 8-quarter period by loan category and the related internal risk rating for corporate loans. The loss migration analysis is updated quarterly using actual loss experience. This component is then adjusted based on management's consideration of many internal and external qualitative factors, including:

- Changes in the composition of the loan portfolio, trends in the volume of loans, and trends in delinquent and non-accrual loans that could indicate that historical trends do not reflect current conditions.
- Changes in credit policies and procedures, such as underwriting standards and collection, charge-off, and recovery practices.
- Changes in the experience, ability, and depth of credit management and other relevant staff.
- Changes in the quality of the Company's loan review system and Board of Directors oversight.
- The effect of any concentration of credit and changes in the level of concentrations, such as loan type or risk rating.
- Changes in the value of the underlying collateral for collateral-dependent loans.
- Changes in the national and local economy that affect the collectability of various segments of the portfolio.
- The effect of other external factors, such as competition and legal and regulatory requirements, on the Company's loan portfolio.

Allowance for Covered Loan Losses – The Company's allowance for covered loan losses reflects the difference between the carrying value and the discounted present value of the estimated cash flows of the covered purchased impaired loans. On a periodic basis, the adequacy of this allowance is determined through a re-estimation of cash flows on all of the outstanding covered purchased impaired loans using either a probability of default/loss given default ("PD/LGD") methodology or a specific review methodology. The PD/LGD model is an expected loss model that estimates future cash flows using a probability of default curve and loss given default estimates.

Reserve for Unfunded Commitments – The Company also maintains a reserve for unfunded commitments, including letters of credit, for the risk of loss inherent in these arrangements. The reserve for unfunded commitments is estimated using the loss migration analysis from the allowance for loan losses, adjusted for probabilities of future funding requirements. The reserve for unfunded commitments is included in other liabilities in the Consolidated Statements of Financial Condition.

The establishment of the allowance for credit losses involves a high degree of judgment given the difficulty of assessing the factors impacting loan repayment and estimating the timing and amount of losses. While management utilizes its best judgment and information available, the adequacy of the allowance for credit losses depends on a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk classifications by regulatory authorities.

FDIC Indemnification Asset – The majority of loans and OREO acquired through FDIC-assisted transactions are covered by loss share agreements with the FDIC (the "FDIC Agreements"), under which the FDIC reimburses the Company for the majority of the losses and eligible expenses related to these assets. The FDIC indemnification asset represents the present value of future expected reimbursements from the FDIC. Since the indemnified items are covered loans and covered OREO, which are initially measured at fair value, the FDIC indemnification asset is also initially measured at fair value by discounting the cash flows expected to be received from the FDIC. These cash flows are estimated by multiplying estimated losses on purchased impaired loans and OREO by the reimbursement rates in the FDIC Agreements.

The balance of the FDIC indemnification asset is adjusted periodically to reflect changes in estimated cash flows. Decreases in expected cash flows on the indemnification asset are recorded prospectively through amortization and increases in estimated reimbursements from the FDIC are recognized by an increase in the carrying value of the indemnification asset. Payments from the FDIC for reimbursement of losses result in a reduction of the FDIC indemnification asset.

Derivative Financial Instruments – 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. All derivative instruments are recorded at fair value as either other assets or other liabilities in the Consolidated Statements of Financial Condition. Subsequent changes in a derivative’s fair value are recognized in earnings unless specific hedge accounting criteria are met.

On the date the Company enters into a derivative contract, the derivative is designated as a fair value hedge, a cash flow hedge, or a non-hedge derivative instrument. Fair value hedges are designed to mitigate exposure to changes in the fair value of an asset or liability attributable to a particular risk, such as interest rate risk. Cash flow hedges are designed to mitigate exposure to variability in expected future cash flows to be received or paid related to an asset, liability, or other type of forecasted transaction. The Company formally documents all relationships between hedging instruments and hedged items, including its risk management objective and strategy for undertaking each hedge transaction.

At the hedge’s inception and quarterly thereafter, a formal assessment is performed to determine the effectiveness of the derivative in offsetting changes in the fair values or cash flows of the hedged items in the current period and prospectively. If a derivative instrument designated as a hedge is terminated or ceases to be highly effective, hedge accounting is discontinued prospectively, and the gain or loss is amortized into earnings. For fair value hedges, the gain or loss is amortized over the remaining life of the hedged asset or liability. For cash flow hedges, the gain or loss is amortized over the same period that the forecasted hedged transactions impact earnings. If the hedged item is disposed of, any fair value adjustments are included in the gain or loss from the disposition of the hedged item. If the forecasted transaction is no longer probable, the gain or loss is included in earnings immediately.

For effective fair value hedges, changes in the fair value of the derivative instruments, as well as changes in the fair value of the hedged item, are recognized in earnings. For cash flow hedges, the effective portion of the change in fair value of the derivative instrument is reported as a component of accumulated other comprehensive loss. The unrealized gain or loss is reclassified into earnings in the same period the hedged transaction affects earnings.

Ineffectiveness is calculated based on the change in fair value of the hedged item compared with the change in fair value of the hedging instrument. For all types of hedges, any ineffectiveness in the hedging relationship is recognized in earnings during the period the ineffectiveness occurs.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Balance Sheet – Disclosures about Offsetting Assets and Liabilities: In December of 2011, the FASB issued guidance on the presentation of offsetting assets and liabilities on the balance sheet, which was further clarified in January 2013. This guidance requires an entity to disclose both the gross information and net information regarding instruments and transactions eligible for offset, such as derivatives, sale and repurchase agreements, and securities borrowing and lending arrangements. The statement was effective for annual and interim periods beginning on or after January 1, 2013. The Company’s derivative assets and liabilities are presented gross, rather than net, in the Consolidated Statements of Financial Condition. The adoption of this guidance on January 1, 2013 did not impact the Company’s financial condition, results of operations, or liquidity.

Technical Corrections and Improvements: In October of 2012, the FASB issued guidance to update the Accounting Standards Codification (the “Codification”) on a variety of topics, which include source literature amendments, guidance clarification and reference corrections, and relocated guidance. In addition, the standard includes amendments to conform terminology and clarifies certain fair value guidance in the Codification. Amendments that do not have transition guidance were effective immediately, and amendments subject to transition guidance were effective for fiscal periods beginning after December 15, 2012. The adoption of this guidance on January 1, 2013 did not materially impact the Company’s financial condition, results of operations, or liquidity.

Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income: In February of 2013, the FASB issued guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component on either the face of the income statement or as a separate disclosure in the notes to the financial statements. This guidance was effective for fiscal periods beginning after December 15, 2012. The Company provides disclosures related to amounts reclassified out of accumulated other comprehensive income in Note 3, “Securities.” Since this guidance only impacted the placement of

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certain disclosures in the financial statements, the adoption of this guidance on January 1, 2013 did not impact the Company's financial condition, results of operations, or liquidity.

3. SECURITIES

Securities are generally classified as held-to-maturity, trading, or available-for-sale at the time of purchase. Securities classified as held-to-maturity are securities for which management has the positive intent and ability to hold to maturity and are stated at cost.

The Company's trading securities consist of diversified investment securities reported at fair value that are held in a grantor trust under deferred compensation arrangements that allow plan participants to direct amounts into a variety of securities, including Company stock. Net trading gains represent changes in the fair value of the trading securities portfolio and are included in other noninterest income in the Condensed Consolidated Statements of Income.

All other securities are classified as available-for-sale and 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 Portfolio
(Dollar amounts in thousands)

	September 30, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale								
U.S. agency securities	$501	$—	$—	$501	$508	$—	$—	$508
Collateralized mortgage obligations ("CMOs")	516,162	1,814	(11,940)	506,036	397,146	3,752	(515)	400,383
Other mortgage-backed securities ("MBSs")	139,312	3,542	(1,552)	141,302	117,785	5,183	(68)	122,900
Municipal securities	464,176	11,787	(4,704)	471,259	495,906	24,623	(486)	520,043
Trust-preferred collateralized debt obligations ("CDOs")	46,532	—	(29,536)	16,996	46,533	—	(34,404)	12,129
Corporate debt securities	13,000	1,993	—	14,993	13,006	2,333	—	15,339
Equity securities:								
Hedge fund investment	1,208	1,642	—	2,850	1,231	385	—	1,616
Other equity securities	8,849	184	(59)	8,974	8,459	1,026	—	9,485
Total equity securities	10,057	1,826	(59)	11,824	9,690	1,411	—	11,101
Total available-for-sale securities	$1,189,740	$20,962	$(47,791)	$1,162,911	$1,080,574	$37,302	$(35,473)	$1,082,403

Securities Held-to-Maturity								
Municipal securities	$29,847	$—	$(305)	$29,542	$34,295	$1,728	$—	$36,023
Trading Securities				$16,443				$14,162

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Remaining Contractual Maturity of Securities
(Dollar amounts in thousands)

	September 30, 2013			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$5,078	$4,880	$3,185	$3,153
After one year to five years	293,418	281,966	6,540	6,473
After five years to ten years	121,548	116,804	10,274	10,169
After ten years	104,165	100,099	9,848	9,747
Securities that do not have a single contractual maturity	665,531	659,162	—	—
Total	$1,189,740	$1,162,911	$29,847	$29,542

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 $989.4 million at September 30, 2013 and $675.3 million at December 31, 2012. No securities held-to-maturity were pledged as of September 30, 2013 or December 31, 2012.

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

Securities Gains (Losses)
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Proceeds from sales	$49,683	$38,574	$69,428	$50,633
Gains (losses) on sales of securities:				
Gross realized gains	34,205	131	34,421	1,734
Gross realized losses	—	(348)	—	(601)
Net realized gains (losses) on securities sales	34,205	(217)	34,421	1,133
Non-cash impairment charges:				
Other-than-temporary securities impairment (“OTTI”)	(404)	—	(404)	(2,328)
Portion of OTTI recognized in other comprehensive loss	—	—	—	186
Net non-cash impairment charges	(404)	—	(404)	(2,142)
Net realized gains (losses)	33,801	(217)	34,017	(1,009)
Income tax expense (benefit) on net realized gains (losses)	13,825	(89)	13,913	(413)
Net amount reclassified from accumulated other comprehensive loss	$19,976	$(128)	$20,104	$(596)
Net trading gains [1]	$882	$685	$2,132	$1,511

[1] All net trading gains relate to trading securities still held as of September 30, 2013 and September 30, 2012.

Net gains realized on securities for the third quarter and nine months ended September 30, 2013 were $34.2 million and $34.4 million, respectively. During the third quarter of 2013, the Company sold its investment in an equity security which resulted in a $34.2 million gain.

The non-cash impairment charges in the table above relate to OTTI charges on municipal securities and CDOs. Accounting guidance requires that the credit portion of an OTTI charge be recognized through income. If a decline in fair value below carrying value is not attributable to credit deterioration 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 non-credit related portion of the decline in fair value in other comprehensive income. In deriving the credit component of the impairment on the CDOs, projected cash flows were discounted at the contractual rate and compared to the fair values computed by discounting future projected cash flows at the London Interbank Offered Rate ("LIBOR") plus an adjustment to reflect the higher risk inherent in these securities given their complex structures and the impact of market factors.

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OTTI on CDOs
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,		
CDO Number	2013	2012	2013	2012	Life-to-Date
1	$—	$—	$—	$—	$10,360
2	—	—	—	1,535	9,402
3	—	—	—	591	2,262
4	—	—	—	—	1,078
5	—	—	—	—	8,570
6	—	—	—	—	243
	$—	$—	$—	$2,126	$31,915

The following table presents a rollforward of life-to-date credit losses recognized in earnings attributable to available-for-sale debt securities held by the Company for the quarters and nine months ended September 30, 2013 and 2012.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Cumulative amount recognized at the beginning of the period	$32,053	$38,667	$38,803	$36,525
Credit losses included in earnings [(1)]:				
Losses recognized on securities that previously had credit losses	—	—	—	2,142
Losses recognized on securities that did not previously have credit losses	404	—	404	—
Reduction for securities sales [(2)]	(39)	—	(6,789)	—
Cumulative amount recognized at the end of the period	$32,418	$38,667	$32,418	$38,667

(1) Included in net securities gains (losses) in the Condensed Consolidated Statements of Income.
(2) During the nine months ended September 30, 2013, one CDO with a carrying value of zero was sold, resulting in a gain of $101,000. This CDO had OTTI of $6.8 million that was previously recognized in earnings.

The following table presents the aggregate amount of unrealized losses and the aggregate related fair values of securities with unrealized losses as of September 30, 2013 and December 31, 2012.

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

		Less Than 12 Months		12 Months or Longer		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of September 30, 2013							
CMOs	63	$300,791	$9,666	$93,536	$2,274	$394,327	$11,940
Other MBSs	16	56,021	1,551	257	1	56,278	1,552
Municipal securities	146	84,725	4,544	3,136	160	87,861	4,704
CDOs	6	—	—	16,996	29,536	16,996	29,536
Equity securities	1	2,185	59	—	—	2,185	59
Total	232	$443,722	$15,820	$113,925	$31,971	$557,647	$47,791
As of December 31, 2012							
CMOs	19	$102,939	$421	$12,796	$94	$115,735	$515
Other MBSs	6	7,210	55	176	13	7,386	68
Municipal securities	49	28,903	459	1,238	27	30,141	486
CDOs	6	—	—	12,129	34,404	12,129	34,404
Total	80	$139,052	$935	$26,339	$34,538	$165,391	$35,473

Substantially all of the Company’s CMOs and other MBSs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. Municipal securities are issued by municipal authorities, and the majority are supported by third-party insurance or some other form of credit enhancement. Management does not believe any remaining individual unrealized loss as of September 30, 2013 represents an OTTI attributable to credit quality. 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, 2013 reflect the illiquidity of these structured investment vehicles. Management does not believe these unrealized losses represent OTTI related to credit deterioration. In addition, the Company does not intend to sell the CDOs with unrealized losses within a short period of time, 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. The Company estimates the fair value of these securities using a discounted cash flow analysis with the assistance of a structured credit valuation firm. For additional discussion of the CDO valuation methodology, refer to Note 12, “Fair Value.”

4. LOANS

Loans Held-for-Investment

Loans that the Company intends to hold until they are paid in full or mature are classified as loans held-for-investment. The following table presents the Company's loans held-for-investment by class.

Loan Portfolio
(Dollar amounts in thousands)

	September 30, 2013	December 31, 2012
Commercial and industrial	$1,792,561	$1,631,474
Agricultural	318,659	268,618
Commercial real estate:		
Office, retail, and industrial	1,336,864	1,333,191
Multi-family	332,749	285,481
Residential construction	46,424	61,462
Commercial construction	128,748	124,954
Other commercial real estate	790,114	773,121
Total commercial real estate	2,634,899	2,578,209
Total corporate loans	4,746,119	4,478,301
Home equity	377,015	390,033
1-4 family mortgages	286,333	282,948
Installment	39,462	38,394
Total consumer loans	702,810	711,375
Total loans, excluding covered loans	5,448,929	5,189,676
Covered loans (1)	153,305	197,894
Total loans	$5,602,234	$5,387,570
Deferred loan fees included in total loans	$4,980	$5,941
Overdrawn demand deposits included in total loans	2,409	4,451

(1) For information on covered loans, refer to Note 5, "Acquired Loans."

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

It is the Company's policy to review each prospective credit to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Company seeks recovery in compliance with state lending laws, the Company's lending standards, and credit monitoring and remediation procedures. A discussion of risk characteristics relevant to each portfolio segment is presented in Note 4, "Loans," in the Company's 2012 10-K.

Mortgage Loan Sales

During the quarter ended September 30, 2013, the Company sold $36.1 million of mortgage loans at a gain of $1.0 million, which is included in mortgage banking income in the Consolidated Statements of Income. For the nine months ended September 30, 2013, a gain of $4.0 million was recognized on $118.1 million of mortgage loans sold.

The Company retained servicing responsibilities for the sold mortgages and collects servicing fees equal to a percentage of the outstanding principal balance.

The Company also retained limited recourse for credit losses on the sold loans. A description of the recourse obligation is presented in Note 11, “Commitments, Guarantees, and Contingent Liabilities.”

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5. ACQUIRED LOANS

Since 2009, the Company acquired the majority of the assets and assumed the deposits of four financial institutions in FDIC-assisted transactions. In three of those transactions, most loans and OREO acquired are covered by the FDIC Agreements. The significant accounting policies related to purchased impaired loans and the related FDIC indemnification asset are presented in Note 1, "Summary of Significant Accounting Policies."

Acquired Loans
(Dollar amounts in thousands)

	September 30, 2013			December 31, 2012		
	Covered	Non-Covered	Total	Covered	Non-Covered	Total
Purchased impaired loans	$119,602 [1]	$15,964	$135,566	$154,762 [1]	$18,198	$172,960
Other loans [2]	33,703	19,542	53,245	43,132	22,480	65,612
Total acquired loans	$153,305	$35,506	$188,811	$197,894	$40,678	$238,572

(1) At acquisition, the Company made an election to account for certain covered loans as purchased impaired loans. These loans totaled $25.5 million at September 30, 2013 and $28.1 million at December 31, 2012.
(2) These loans did not meet the criteria to be accounted for as purchased impaired loans at acquisition.

Except for leases and revolving loans, management determined that a significant portion of the acquired loans had evidence of credit deterioration since origination ("purchased impaired loans"), 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 was evaluated using various indicators, such as past due and non-accrual status. Other key considerations and indicators included the past performance of the troubled institutions' credit underwriting standards, completeness and accuracy of credit files, maintenance of risk ratings, and age of appraisals.

In connection with the FDIC Agreements, the Company recorded an indemnification asset. To maintain eligibility for the loss share reimbursement, the Company is required to follow certain servicing procedures as specified in the FDIC Agreements. The Company is in compliance with those requirements as of September 30, 2013 and December 31, 2012.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Beginning balance	$23,158	$58,302	$37,051	$65,609
Amortization	(116)	(6,146)	(2,348)	(10,642)
Expected reimbursements from the FDIC for changes in expected credit losses	(999)	250	(3,453)	10,022
Payments received from the FDIC	(3,965)	(5,215)	(13,172)	(17,798)
Ending balance	$18,078	$47,191	$18,078	$47,191

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Explanation of Responses:

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

Changes in Accretable Yield
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Beginning balance	$47,104	$48,980	$51,498	$52,147
Accretion	(3,410)	(4,689)	(11,752)	(15,870)
Other [(1)]	(3,128)	(6,348)	820	1,666
Ending balance	$40,566	$37,943	$40,566	$37,943

(1) Decreases result from the resolution of certain loans occurring earlier than anticipated while increases represent an 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, IMPAIRED LOANS, AND TDRS

Past Due and Non-accrual Loans

The following table presents an aging analysis of the Company’s past due loans as of September 30, 2013 and December 31, 2012. The aging is determined without regard to accrual status. The table also presents non-performing loans, consisting of non-accrual loans (the majority of which are past due) and loans 90 days or more past due and still accruing interest, as of each balance sheet date.

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

	Aging Analysis (Accruing and Non-accrual)					Non-performing Loans	
	Current	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans	Non-accrual Loans	90 Day Past Due Loans, Still Accruing Interest
September 30, 2013							
Commercial and industrial	$1,772,525	$5,344	$14,692	$20,036	$1,792,561	$13,835	$3,927
Agricultural	318,125	—	534	534	318,659	642	—
Commercial real estate:							
Office, retail, and industrial	1,318,709	802	17,353	18,155	1,336,864	19,855	12
Multi-family	330,069	1,347	1,333	2,680	332,749	2,068	—
Residential construction	44,286	—	2,138	2,138	46,424	2,356	—
Commercial construction	124,867	—	3,881	3,881	128,748	3,881	—
Other commercial real estate	778,929	1,519	9,666	11,185	790,114	11,620	173
Total commercial real estate	2,596,860	3,668	34,371	38,039	2,634,899	39,780	185
Total corporate loans	4,687,510	9,012	49,597	58,609	4,746,119	54,257	4,112
Home equity	365,888	4,622	6,505	11,127	377,015	6,779	973
1-4 family mortgages	279,271	2,154	4,908	7,062	286,333	5,055	519
Installment	36,884	485	2,093	2,578	39,462	2,079	38
Total consumer loans	682,043	7,261	13,506	20,767	702,810	13,913	1,530
Total loans, excluding covered loans	5,369,553	16,273	63,103	79,376	5,448,929	68,170	5,642
Covered loans	103,382	8,223	41,700	49,923	153,305	30,856	20,235
Total loans	$5,472,935	$24,496	$104,803	$129,299	$5,602,234	$99,026	$25,877
December 31, 2012							
Commercial and industrial	$1,614,167	$4,883	$12,424	$17,307	$1,631,474	$25,941	$2,138
Agricultural	267,077	79	1,462	1,541	268,618	1,173	375
Commercial real estate:							
Office, retail, and industrial	1,306,526	4,130	22,535	26,665	1,333,191	23,224	823
Multi-family	283,634	761	1,086	1,847	285,481	1,434	153
Residential construction	57,009	—	4,453	4,453	61,462	4,612	—
Commercial construction	124,081	—	873	873	124,954	873	—
Other commercial real estate	755,103	1,053	16,965	18,018	773,121	16,214	1,534
Total commercial real estate	2,526,353	5,944	45,912	51,856	2,578,209	46,357	2,510
Total corporate loans	4,407,597	10,906	59,798	70,704	4,478,301	73,471	5,023
Home equity	376,801	6,482	6,750	13,232	390,033	6,189	1,651
1-4 family mortgages	272,270	4,472	6,206	10,678	282,948	4,874	1,947
Installment	35,936	2,390	68	2,458	38,394	—	68
Total consumer loans	685,007	13,344	13,024	26,368	711,375	11,063	3,666
Total loans, excluding	5,092,604	24,250	72,822	97,072	5,189,676	84,534	8,689

covered loans							
Covered loans	147,462	6,517	43,915	50,432	197,894	14,182	31,447
Total loans	$5,240,066	$30,767	$116,737	$147,504	$5,387,570	$98,716	$40,136

Allowance for Credit Losses

The Company maintains an allowance for credit losses at a level deemed adequate by management to absorb probable losses inherent in the loan portfolio. Refer to Note 1, “Summary of Significant Accounting Policies,” for the accounting policy for the allowance for credit losses.

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

	Commercial, Industrial, and Agricultural	Office, Retail, and Industrial	Multi-Family	Residential Construction	Other Commercial Real Estate	Consumer	Covered Loans	Reserve for Unfunded Commitments	Total Allowance
Quarter ended September 30, 2013									
Beginning balance	$ 31,742	$ 11,857	$ 3,424	$ 4,170	$ 16,169	$ 12,367	$ 14,381	$ 2,866	$ 96,976
Charge-offs	(2,719)	(987)	(112)	(470)	(889)	(2,482)	(1,636)	—	(9,295)
Recoveries	521	31	—	57	253	374	7	—	1,243
Net charge-offs	(2,198)	(956)	(112)	(413)	(636)	(2,108)	(1,629)	—	(8,052)
Provision for loan and covered loan losses and other	2,452	938	(31)	(100)	(1,218)	2,425	304	(480)	4,290
Ending balance	$ 31,996	$ 11,839	$ 3,281	$ 3,657	$ 14,315	$ 12,684	$ 13,056	$ 2,386	$ 93,214
Quarter ended September 30, 2012									
Beginning balance	$ 43,410	$ 18,353	$ 4,789	$ 12,732	$ 23,233	$ 12,683	$ 982	$ 2,500	$ 118,682
Charge-offs	(47,630)	(29,370)	(2,758)	(9,368)	(34,510)	(3,042)	(442)	—	(127,120)
Recoveries	1,318	2	3	126	21	122	—	—	1,592
Net charge-offs	(46,312)	(29,368)	(2,755)	(9,242)	(34,489)	(2,920)	(442)	—	(125,528)
Provision for loan and covered loan losses and other	40,546	22,989	1,939	4,297	30,896	2,267	8,857	—	111,791
Ending balance	$ 37,644	$ 11,974	$ 3,973	$ 7,787	$ 19,640	$ 12,030	$ 9,397	$ 2,500	$ 104,945
Nine months ended September 30, 2013									
Beginning balance	$ 36,761	$ 11,432	$ 3,575	$ 5,242	$ 17,512	$ 12,862	$ 12,062	$ 3,366	$ 102,812
Charge-offs	(9,010)	(3,702)	(490)	(1,885)	(3,971)	(7,369)	(4,322)	—	(30,749)
Recoveries	3,183	68	35	62	1,614	894	18	—	5,874
Net charge-offs	(5,827)	(3,634)	(455)	(1,823)	(2,357)	(6,475)	(4,304)	—	(24,875)
Provision for loan and covered loan losses and other	1,062	4,041	161	238	(840)	6,297	5,298	(980)	15,277
Ending balance	$ 31,996	$ 11,839	$ 3,281	$ 3,657	$ 14,315	$ 12,684	$ 13,056	$ 2,386	$ 93,214

Nine months ended September 30, 2012									
Beginning balance	$ 46,017	$ 16,012	$ 5,067	$ 14,423	$ 22,823	$ 14,131	$ 989	$ 2,500	$ 121,962
Charge-offs	(62,243)	(34,607)	(3,242)	(13,649)	(48,432)	(8,164)	(3,150)	—	(173,487)
Recoveries	2,569	311	165	346	46	574	—	—	4,011
Net charge-offs	(59,674)	(34,296)	(3,077)	(13,303)	(48,386)	(7,590)	(3,150)	—	(169,476)
Provision for loan and covered loan losses and other	51,301	30,258	1,983	6,667	45,203	5,489	11,558	—	152,459
Ending balance	$ 37,644	$ 11,974	$ 3,973	$ 7,787	$ 19,640	$ 12,030	$ 9,397	$ 2,500	$ 104,945

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The table below provides a breakdown of loans and the related allowance for credit losses by portfolio segment.

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

	Loans				Allowance for Credit Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
September 30, 2013								
Commercial, industrial, and agricultural	$16,202	$2,093,220	$ 1,798	$2,111,220	$3,424	$ 28,572	$ —	$31,996
Commercial real estate:								
Office, retail, and industrial	28,600	1,308,264	—	1,336,864	818	11,021	—	11,839
Multi-family	1,624	330,998	127	332,749	120	3,161	—	3,281
Residential construction	2,357	44,067	—	46,424	99	3,558	—	3,657
Other commercial real estate	17,481	897,407	3,974	918,862	358	13,957	—	14,315
Total commercial real estate	50,062	2,580,736	4,101	2,634,899	1,395	31,697	—	33,092
Total corporate loans	66,264	4,673,956	5,899	4,746,119	4,819	60,269	—	65,088
Consumer	—	692,745	10,065	702,810	—	12,684	—	12,684
Total loans, excluding covered loans	66,264	5,366,701	15,964	5,448,929	4,819	72,953	—	77,772
Covered loans:								
Purchased impaired loans	—	—	119,602	119,602	—	—	12,280	12,280
Other loans	—	33,703	—	33,703	—	776	—	776
Total covered loans	—	33,703	119,602	153,305	—	776	12,280	13,056
Reserve for unfunded commitments	—	—	—	—	—	2,386	—	2,386
Total loans	$66,264	$5,400,404	$ 135,566	$5,602,234	$4,819	$ 76,115	$ 12,280	$93,214
December 31, 2012								
Commercial, industrial, and agricultural	$23,731	$1,874,464	$ 1,897	$1,900,092	$9,404	$ 27,357	$ —	$36,761
Commercial real estate:								
Office, retail, and industrial	21,736	1,311,455	—	1,333,191	971	10,461	—	11,432
Multi-family	642	284,718	121	285,481	—	3,575	—	3,575
	4,040	57,422	—	61,462	—	5,242	—	5,242

Residential construction								
Other commercial real estate	16,160	877,749	4,166	898,075	1,247	16,265	—	17,512
Total commercial real estate	42,578	2,531,344	4,287	2,578,209	2,218	35,543	—	37,761
Total corporate loans	66,309	4,405,808	6,184	4,478,301	11,622	62,900	—	74,522
Consumer	—	699,361	12,014	711,375	—	12,862	—	12,862
Total loans, excluding covered loans	66,309	5,105,169	18,198	5,189,676	11,622	75,762	—	87,384
Covered loans:								
Purchased impaired loans	—	—	154,762	154,762	—	—	11,134	11,134
Other loans	—	43,132	—	43,132	—	928	—	928
Total covered loans	—	43,132	154,762	197,894	—	928	11,134	12,062
Reserve for unfunded commitments	—	—	—	—	—	3,366	—	3,366
Total loans	$66,309	$5,148,301	$ 172,960	$5,387,570	$11,622	$ 80,056	$ 11,134	$102,812

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Loans Individually Evaluated for Impairment

Corporate non-accrual loans exceeding a fixed dollar amount are individually evaluated for impairment when the internal risk rating is at or below a certain level. The following table presents loans individually evaluated for impairment by class of loan as of September 30, 2013 and December 31, 2012. Loans acquired with deteriorated credit quality are excluded from this disclosure.

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

	September 30, 2013 Recorded Investment In				December 31, 2012 Recorded Investment In			
	Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve	Loans with No Specific Reserve	Loans with a Specific Reserve	Unpaid Principal Balance	Specific Reserve
Commercial and industrial	$12,130	$4,072	$28,685	$3,424	$5,636	$18,095	$39,834	$9,404
Agricultural	—	—	—	—	—	—	—	—
Commercial real estate:								
Office, retail, and industrial	24,934	3,666	37,466	818	14,504	7,232	29,631	971
Multi-family	1,264	360	3,523	120	642	—	2,406	—
Residential construction	1,523	834	6,286	99	4,040	—	10,741	—
Commercial construction	3,881	—	4,247	—	—	876	1,242	90
Other commercial real estate	12,146	1,454	17,624	358	5,218	10,066	23,907	1,157
Total commercial real estate	43,748	6,314	69,146	1,395	24,404	18,174	67,927	2,218
Total impaired loans individually evaluated for impairment	$55,878	$10,386	$97,831	$4,819	$30,040	$36,269	$107,761	$11,622

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Average Recorded Investment and Interest Income Recognized on Impaired Loans by Class
(Dollar amounts in thousands)

	Quarters Ended September 30,			
	2013		2012	
	Average Recorded Balance	Interest Income Recognized [1]	Average Recorded Balance	Interest Income Recognized [1]
Commercial and industrial	$20,665	$195	$51,073	$85
Agricultural	—	—	1,494	—
Commercial real estate:				
Office, retail, and industrial	25,747	5	43,506	2
Multi-family	1,337	—	7,095	—
Residential construction	2,630	—	16,007	1
Commercial construction	3,881	—	21,086	—
Other commercial real estate	12,511	16	31,392	32
Total commercial real estate	46,106	21	119,086	35
Total impaired loans	$66,771	$216	$171,653	$120

	Nine Months Ended September 30,			
	2013		2012	
	Average Recorded Balance	Interest Income Recognized [1]	Average Recorded Balance	Interest Income Recognized [1]
Commercial and industrial	$22,862	$198	$50,777	$94
Agricultural	—	—	1,117	—
Commercial real estate:				
Office, retail, and industrial	24,415	15	35,874	2
Multi-family	1,071	—	7,680	—
Residential construction	3,608	—	17,658	1
Commercial construction	2,379	—	21,397	—
Other commercial real estate	14,102	24	41,085	38
Total commercial real estate	45,575	39	123,694	41
Total impaired loans	$68,437	$237	$175,588	$135

[1] Recorded using the cash basis of accounting.

TDRs

TDRs are generally performed at the request of the individual borrower and may include forgiveness of principal, reduction in interest rates, changes in payments, and maturity date extensions. A discussion of our accounting policies for TDRs can be found in Note 1, "Summary of Significant Accounting Policies."

TDRs by Class
(Dollar amounts in thousands)

	As of September 30, 2013			As of December 31, 2012		
	Accruing	Non-accrual [1]	Total	Accruing	Non-accrual [1]	Total
Commercial and industrial	$6,804	$2,225	$9,029	$519	$2,545	$3,064
Agricultural	—	—	—	—	—	—
Commercial real estate:						
Office, retail, and industrial	10,346	363	10,709	—	2,407	2,407
Multi-family	1,045	259	1,304	—	150	150
Residential construction	495	—	495	—	—	—
Commercial construction	—	—	—	—	—	—
Other commercial real estate	4,273	453	4,726	5,206	4,649	9,855
Total commercial real estate	16,159	1,075	17,234	5,206	7,206	12,412
Total corporate loans	22,963	3,300	26,263	5,725	9,751	15,476
Home equity	550	518	1,068	40	234	274
1-4 family mortgages	816	919	1,735	1,102	939	2,041
Installment	—	—	—	—	—	—
Total consumer loans	1,366	1,437	2,803	1,142	1,173	2,315
Total loans	$24,329	$4,737	$29,066	$6,867	$10,924	$17,791

[1] These loans are included in non-accrual loans in the preceding tables.

TDRs are included in the calculation of the allowance for credit losses in the same manner as impaired loans. TDRs had related specific reserves totaling $2.0 million as of September 30, 2013 and $2.8 million as of December 31, 2012.

TDRs Restructured During the Period
(Dollar amounts in thousands)

	Number of Loans	Pre-Modification Recorded Investment	Funds Disbursed	Interest and Escrow Capitalized	Charge-offs	Post-Modification Recorded Investment
Quarter ended September 30, 2013						
Commercial and industrial	3	$369	$—	$—	$—	$369
Office, retail, and industrial	2	1,674	—	—	—	1,674
Other commercial real estate	1	10	—	—	—	10
Home equity	8	822	—	—	—	822
Total TDRs restructured during the period	14	$2,875	$—	$—	$—	$2,875
Quarter ended September 30, 2012						
Commercial and industrial	2	$2,541	$—	$—	$—	$2,541
Office, retail, and industrial	1	1,791	—	—	—	1,791
Total TDRs restructured during the period	3	$4,332	$—	$—	$—	$4,332
Nine months ended September 30, 2013						
Commercial and industrial	7	$14,439	$—	$2	$—	$14,441
Office, retail, and industrial	6	2,275	30	—	—	2,305
Multi-family	5	1,275	—	57	—	1,332
Residential construction	2	508	—	—	—	508
Other commercial real estate	5	526	—	—	—	526
Home equity	9	947	—	—	—	947
1-4 family mortgages	1	132	—	4	—	136
Total TDRs restructured during the period	35	$20,102	$30	$63	$—	$20,195
Nine months ended September 30, 2012						
Commercial and industrial	3	$2,850	$—	$—	$170	$2,680
Office, retail, and industrial	2	2,416	—	—	—	2,416
Other commercial real estate	3	913	—	—	125	788
1-4 family mortgages	4	563	—	4	—	567
Total TDRs restructured during the period	12	$6,742	$—	$4	$295	$6,451

Accruing TDRs that have payment defaults and do not perform in accordance with their modified terms are transferred to non-accrual. The following table presents TDRs that had payment defaults during the nine months ended September 30, 2013 and 2012 where the default occurred within twelve months of the restructure date.

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

	Quarters Ended September 30, 2013		September 30, 2012		Nine Months Ended September 30, 2013		September 30, 2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial and industrial	—	$—	—	$—	1	$350	—	$—
Office, retail, and industrial	—	—	1	617	—	—	2	837
Other commercial real estate	—	—	2	717	3	354	2	717
1-4 family mortgages	—	—	—	—	—	—	1	62
Total	—	$—	3	$1,334	4	$704	5	$1,616

A rollforward of the carrying value of TDRs for the quarters and nine months ended September 30, 2013 and 2012 is presented in the following table.

TDR Rollforward
(Dollar amounts in thousands)

	Quarters Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Accruing				
Beginning balance	$8,287	$7,811	$6,867	$17,864
Additions	1,128	—	4,606	1,978
Net payments received	(248)	(86)	(415)	(155)
Returned to performing status	—	—	(5,037)	(16,619)
Transfers from (to) non-accrual	15,162	(1,334)	18,308	3,323
Ending balance	24,329	6,391	24,329	6,391
Non-accrual				
Beginning balance	18,450	24,861	10,924	29,842
Additions	1,747	4,332	15,589	4,473
Net payments received	(201)	(954)	(735)	(892)
Charge-offs	(62)	(9,147)	(1,850)	(9,674)
Transfers to OREO	(35)	(6,437)	(77)	(6,437)
Loans sold	—	(1,602)	(806)	(1,602)
Transfers (to) from accruing	(15,162)	1,334	(18,308)	(3,323)
Ending balance	4,737	12,387	4,737	12,387
Total TDRs	$29,066	$18,778	$29,066	$18,778

For TDRs to be removed from TDR status, the loans must (i) have an interest rate and terms that reflect market conditions at the time of restructuring and (ii) be in compliance with the modified loan terms. TDRs that were returned to performing status totaled $5.0 million and $16.6 million for the nine months ended September 30, 2013 and 2012, respectively. No TDRs were returned to performing status for the quarters ended September 30, 2013 and 2012. Loans that were not restructured at market rates and terms, that are not in compliance with the modified terms, or for which there is a concern about the future ability of the borrower to meet its obligations under the modified terms, continue to be separately reported as restructured until paid in full or charged-off.

There were no commitments to lend additional funds to borrowers with TDRs as of September 30, 2013 or December 31, 2012.

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Credit Quality Indicators

Corporate loans and commitments are assessed for credit risk and assigned ratings based on various characteristics, such as the borrower's cash flow, leverage, and collateral. Ratings for commercial credits are reviewed periodically. On a quarterly basis, consumer loans are assessed for credit quality based on the accrual status of the loan.

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

	Pass	Special Mention [1] [4]	Substandard [2] [4]	Non-accrual [3]	Total
September 30, 2013					
Commercial and industrial	$1,725,474	$42,627	$10,625	$13,835	$1,792,561
Agricultural	318,017	—	—	642	318,659
Commercial real estate:					
Office, retail, and industrial	1,230,963	63,172	22,874	19,855	1,336,864
Multi-family	326,547	3,212	922	2,068	332,749
Residential construction	33,138	3,705	7,225	2,356	46,424
Commercial construction	107,972	6,524	10,371	3,881	128,748
Other commercial real estate	743,885	13,017	21,592	11,620	790,114
Total commercial real estate	2,442,505	89,630	62,984	39,780	2,634,899
Total corporate loans	$4,485,996	$132,257	$73,609	$54,257	$4,746,119
December 31, 2012					
Commercial and industrial	$1,558,932	$37,833	$8,768	$25,941	$1,631,474
Agricultural	267,114	331	—	1,173	268,618
Commercial real estate:					
Office, retail, and industrial	1,235,950	57,271	16,746	23,224	1,333,191
Multi-family	282,126	1,921	—	1,434	285,481
Residential construction	33,392	11,870	11,588	4,612	61,462
Commercial construction	95,567	14,340	14,174	873	124,954
Other commercial real estate	712,702	14,056	30,149	16,214	773,121
Total commercial real estate	2,359,737	99,458	72,657	46,357	2,578,209
Total corporate loans	$4,185,783	$137,622	$81,425	$73,471	$4,478,301

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

(2) Loans categorized as substandard 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 non-accrual exhibit a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt or result in a loss if the deficiencies are not corrected.

(4) Total special mention and substandard loans include $18.6 million of accruing TDRs as of September 30, 2013 and $448,000 of accruing TDRs as of December 31, 2012.

Explanation of Responses:

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

	Performing	Non-accrual	Total
September 30, 2013			
Home equity	$370,236	$6,779	$377,015
1-4 family mortgages	281,278	5,055	286,333
Installment	37,383	2,079	39,462
Total consumer loans	$688,897	$13,913	$702,810
December 31, 2012			
Home equity	$383,844	$6,189	$390,033
1-4 family mortgages	278,074	4,874	282,948
Installment	38,394	—	38,394
Total consumer loans	$700,312	$11,063	$711,375

7. EARNINGS PER COMMON SHARE

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	$29,323	$(48,527)	$60,141	$(34,270)
Net (income) loss applicable to non-vested restricted shares	(416)	715	(847)	500
Net income (loss) applicable to common shares	$28,907	$(47,812)	$59,294	$(33,770)
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding	74,023	73,742	73,969	73,636
Dilutive effect of common stock equivalents	11	—	9	—
Weighted-average diluted common shares outstanding	74,034	73,742	73,978	73,636
Basic earnings (loss) per common share	$0.39	$(0.65)	$0.80	$(0.46)
Diluted earnings (loss) per common share	$0.39	$(0.65)	$0.80	$(0.46)
Anti-dilutive shares not included in the computation of diluted earnings per common share [1]	1,411,643	1,739,697	1,483,394	1,785,959

(1) This amount represents outstanding stock options for which the exercise price is greater than the average market price of the Company’s common stock.

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8. INCOME TAXES

Income Tax Expense
(Dollar amounts in thousands)

	Quarters Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Income (loss) before income tax expense (benefit)	$54,282	$(85,520)	$99,348	$(69,346)
Income tax expense (benefit):				
Federal income tax expense (benefit)	$19,145	$(29,391)	$29,058	$(28,420)
State income tax expense (benefit)	5,814	(7,602)	10,149	(6,656)
Total income tax expense (benefit)	$24,959	$(36,993)	$39,207	$(35,076)
Effective income tax rate	46.0%	43.3%	39.5%	50.6%

Federal income tax expense and the related effective income tax rate are influenced primarily by the amount of tax-exempt income derived from investment securities and bank-owned life insurance in relation to pre-tax income and state income taxes. State income tax expense and the related effective income tax rate are driven 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 $25.0 million and $39.2 million for the third quarter and nine months ended September 30, 2013, respectively, compared to an income tax benefit of $37.0 million and $35.1 million for the same periods in 2012. The rise in income tax expense in 2013 was driven primarily by higher levels of income during 2013, which are subject to tax at statutory rates, and to a non-deductible BOLI modification loss recorded during the third quarter of 2013. Excluding the BOLI modification loss, the effective tax rate would have been 36.9% and 34.8% for the third quarter and nine months ended September 30, 2013, respectively.

The Company's accounting policies for income taxes are included in Note 1, "Summary of Significant Accounting Policies," and Note 14, "Income Taxes," in the Company's 2012 10-K.

9. EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution retirement savings plan (the “Profit Sharing Plan”) and a noncontributory defined benefit retirement plan (the “Pension Plan”) that cover eligible employees. Additional information regarding the Profit Sharing Plan and Pension Plan can be found in Note 15, “Employee Benefit Plans,” in the Company’s 2012 10-K.

The Pension Plan covers employees who met certain eligibility requirements and were hired before April 1, 2007, the date it was amended to eliminate enrollment of new participants. During the second quarter of 2013, the Board of Directors approved an amendment to freeze benefit accruals under the Pension Plan effective on January 1, 2014. As a result of the Pension Plan amendment, the Company recorded an immaterial curtailment loss and remeasured the Pension Plan obligations and assets as of June 30, 2013. The remeasurement decreased the projected pension obligation by $11.0 million and increased other comprehensive income by $6.5 million, after tax. Depending on various factors, these actions could reduce 2013 pension expense by approximately $1.0 million.

Components of Net Periodic Benefit Cost
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Service cost	$218	$1,109	$2,135	$2,191
Interest cost	203	1,054	1,981	2,082
Expected return on plan assets	(361)	(1,727)	(3,528)	(3,411)
Recognized net actuarial loss	—	653	—	1,289
Amortization of prior service cost	122	1	1,192	2
Net periodic cost	$182	$1,090	$1,780	$2,153

The Company’s policy is to amortize the Pension Plan’s net actuarial losses into income over the average remaining life expectancy of the Pension Plan participants.

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Company hedges the fair value of fixed rate commercial real estate loans using interest rate swaps through which the Company pays fixed amounts and receives variable amounts. These derivative contracts are designated as fair value hedges.

Fair Value Hedges
(Dollar amounts in thousands)

	September 30, 2013	December 31, 2012
Notional amount outstanding	$15,017	$15,860
Derivative liability fair value	(1,647)	(2,270)
Weighted-average interest rate received	2.09%	2.12%
Weighted-average interest rate paid	6.39%	6.39%
Weighted-average maturity (in years)	4.02	4.76
Cash pledged to collateralize net unrealized losses with counterparties [1]	$1,583	$2,516
Fair value of assets needed to settle derivative transactions [2]	1,676	2,301

[1] No other collateral was required to be pledged.

(2) This amount represents the fair value of assets needed to settle derivative transactions if credit risk related contingent factors were triggered.

Hedge ineffectiveness is recognized in other noninterest income in the Consolidated Statements of Income. For the quarters and nine months ended September 30, 2013 and 2012, gains or losses relating to fair value hedge ineffectiveness were not material.

The Company also enters into derivative transactions with its commercial customers and simultaneously enters into an offsetting interest rate derivative transaction with a third-party. This transaction allows the Company’s customers to effectively convert a variable rate loan into a fixed rate loan. Due to the offsetting nature of these transactions, the Company does not apply hedge

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accounting treatment. Transaction fees related to commercial customer derivative instruments of $1.4 million and $2.0 million were recorded in noninterest income for the quarter and nine months ended September 30, 2013, respectively. There were no transaction fees recorded for the quarter and nine months ended September 30, 2012.

Other Derivative Instruments
(Dollar amounts in thousands)

	September 30, 2013	December 31, 2012
Notional amount outstanding	$98,763	$—
Derivative asset fair value	2,258	—
Derivative liability fair value	(2,258)	—
Cash pledged to collateralize net unrealized losses with counterparties [1]	1,800	—
Fair value of assets needed to settle derivative transactions [2]	1,953	—

[1] No other collateral was required to be pledged.
[2] This amount represents the fair value if credit risk related contingent factors were triggered.

Derivative instruments are inherently subject to credit risk, which represents the Company’s risk of loss when the counterparty to a derivative contract fails to perform according to the terms of the agreement. Credit risk is managed by limiting and collateralizing the aggregate amount of net unrealized losses by transaction, monitoring the size and the maturity structure of the derivatives, and applying uniform credit standards. Company policy establishes limits on credit exposure to any single counterparty. In addition, the Company established bilateral collateral agreements with derivative counterparties that provide for exchanges of marketable securities or cash to collateralize either party’s net losses above a stated minimum threshold. At September 30, 2013, these collateral agreements covered 100% of the fair value of the Company’s outstanding fair value hedges. Derivative assets and liabilities are presented gross, rather than net, of pledged collateral amounts.

As of September 30, 2013 and December 31, 2012, the Company’s derivative instruments generally contained provisions that require the Company’s debt to remain above a certain credit rating by each of the major credit rating agencies or that the Company maintain certain capital levels. If the Company’s debt were to fall below that credit rating or the Company's capital were to fall below the required levels, it would be in violation of those provisions, and the counterparties to the derivative instruments could terminate the swap transaction and demand cash settlement of the derivative instrument in an amount equal to the derivative liability fair value. As of September 30, 2013 and December 31, 2012, the Company was not in violation of these provisions.

The Company’s derivative portfolio also includes other derivative instruments that do not receive hedge accounting treatment consisting of commitments to originate 1-4 family mortgage loans and foreign exchange contracts. In addition, the Company occasionally enters into risk participation agreements with counterparty banks to transfer or assume a portion of the credit risk related to customer transactions. The amounts of these instruments were not material for any period presented. The Company had no other derivative instruments as of September 30, 2013 or December 31, 2012. The Company does not enter into derivative transactions for purely speculative purposes.

11. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

Credit Commitments and Guarantees

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

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

	September 30, 2013	December 31, 2012
Commitments to extend credit:		
Commercial and industrial	$877,470	$737,973
Commercial real estate	194,095	168,105
Residential construction	12,133	18,986
Home equity lines	262,244	258,156
Credit card lines	27,565	25,459
Overdraft protection program [1]	172,610	176,328
All other commitments	91,797	105,344
Total commitments	$1,637,914	$1,490,351
Letters of credit:		
Commercial real estate	$40,459	$52,145
Residential construction	5,141	5,696
All other	70,701	57,996
Total letters of credit	$116,301	$115,837
Unamortized fees associated with letters of credit [2][3]	$659	$740
Remaining weighted-average term, in months	9.71	13.20
Remaining lives, in years	0.1 to 10.8	0.1 to 11.6
Recourse on assets sold:		
Unpaid principal balance of loans sold	$155,514	$50,110
Carrying value of recourse obligation [2]	142	55

[1] Federal regulations regarding electronic fund transfers require customers 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. Customers are provided a specific line for the amount they may overdraw.
[2] Included in other liabilities in the Consolidated Statements of Financial Condition.
[3] The Company amortizes these amounts into income over the commitment period.

Commitments to extend credit are agreements to lend funds to a customer, subject to contractual terms and covenants. Commitments generally have fixed expiration dates or other termination clauses, variable interest rates, and fee requirements, when applicable. Since many of the commitments are expected to expire without being drawn, the total commitment amounts do not necessarily represent future cash flow requirements.

In the event of a customer's non-performance, the Company's credit loss exposure is equal to the contractual amount of the commitments. The credit risk is essentially the same as extending loans to customers. The Company uses the same credit policies for credit commitments and its loans and minimizes exposure to credit loss through various collateral requirements.

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 on the failure of the customer to perform according to the terms of the contract with the third party and are 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.

As a result of the sale of certain 1-4 family mortgage loans, the Company is contractually obligated to repurchase any non-performing loans or loans that do not meet underwriting requirements at recorded value. In accordance with the sales agreements, there is no limitation on the maximum potential future payments or expiration of the Company's recourse obligation. No loans were required to be repurchased during the quarters and nine months ended September 30, 2013 or 2012.

During 2012, the Company entered into two forward commitments with the FHLB of Chicago to borrow $250 million for a five year period beginning in 2014 at a weighted average interest rate of 2.0%. The Company terminated these forward commitments during the third quarter of 2013, resulting in a gain of $7.8 million recorded in noninterest income in the Condensed Consolidated Statement of Income.

Legal Proceedings

In 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 relating to debit card transactions, and alleges that these practices resulted in customers being assessed excessive overdraft fees. The plaintiffs seek an unspecified amount of damages and other relief, including restitution. No class has been certified. The Bank filed a motion to dismiss the plaintiffs' complaint and, on January 23, 2013, the Circuit Court entered an order granting the Bank's motion and dismissed the complaint with prejudice. The plaintiffs have appealed the Circuit Court's ruling, and the appeal is currently pending with the Appellate Court of Illinois. The Company continues to believe that the Bank has meritorious defenses to the claims made by the plaintiffs.

There are 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 any legal proceedings, if any, would have a material adverse effect on the consolidated financial condition of the Company as of September 30, 2013.

12. FAIR VALUE

Fair value represents the amount received to sell an asset or paid to transfer a liability in its principal or most advantageous market in an orderly transaction between market participants at the measurement date. In accordance with fair value accounting guidance, the Company measures, records, and reports various types of assets and liabilities at fair value on either a recurring or non-recurring basis in the Consolidated Statements of Financial Condition. Those assets and liabilities are presented below in the sections titled "Assets and Liabilities Required to be Measured at Fair Value on a Recurring Basis" and "Assets and Liabilities Required to be Measured at Fair Value on a Non-Recurring Basis."

Other assets and liabilities are not required to be measured at fair value in the Consolidated Statements of Financial Condition, but must be disclosed at fair value. Refer to the "Fair Value Measurements of Other Financial Instruments" section of this footnote. Any aggregation of the estimated fair values presented in this footnote does not represent the value of the Company.

Depending on the nature of the asset or liability, the Company uses various valuation methodologies and assumptions to estimate fair value. GAAP provides a three-tiered fair value hierarchy based on the inputs used to measure fair value. The hierarchy is defined as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than level 1 prices, such as quoted prices for similar instruments, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These inputs require significant management judgment or estimation, some of which use model-based techniques and may be internally developed.

Assets and liabilities are assigned to a level within the fair value hierarchy based on the lowest level of significant input used to measure fair value. Assets and liabilities may change levels within the fair value hierarchy due to market

conditions or other circumstances. Those transfers are recognized on the date of the event that prompted the transfer. There were no transfers of assets or liabilities between levels of the fair value hierarchy during the periods presented.

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

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

Recurring Fair Value Measurements
(Dollar amounts in thousands)

	September 30, 2013			December 31, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Trading securities:						
Money market funds	$1,256	$—	$—	$1,554	$—	$—
Mutual funds	15,187	—	—	12,608	—	—
Total trading securities	16,443	—	—	14,162	—	—
Securities available-for-sale:						
U.S. agency securities	—	501	—	—	508	—
CMOs	—	506,036	—	—	400,383	—
Other MBSs	—	141,302	—	—	122,900	—
Municipal securities	—	471,259	—	—	520,043	—
CDOs	—	—	16,996	—	—	12,129
Corporate debt securities	—	14,993	—	—	15,339	—
Hedge fund investment	—	2,850	—	—	1,616	—
Other equity securities	43	8,931	—	43	9,442	—
Total securities available-for-sale	43	1,145,872	16,996	43	1,070,231	12,129
Mortgage servicing rights [1]	—	—	1,726	—	—	985
Derivative assets [1]	—	2,258	—	—	—	—
Liabilities:						
Derivative liabilities [2]	$—	$3,905	$—	$—	$2,270	$—

[1] Included in other assets in the Consolidated Statements of Financial Condition.
[2] Included in other liabilities in the Consolidated Statements of Financial Condition.

The following sections describe the specific valuation techniques and inputs used to measure financial assets and liabilities at fair value.

Trading Securities

The Company’s trading securities consist of diversified investment securities held in a grantor 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. Changes in the fair value of trading securities are included in other noninterest income in the Condensed Consolidated Statements of Income.

Securities Available-for-Sale

Where quoted prices are available in an active market, securities are classified in level 1 of the fair value hierarchy. The Company’s available-for-sale securities are primarily fixed income instruments that are not quoted on an exchange, but may be traded in active markets. The fair values are based on quoted prices in active markets or market

prices for similar securities obtained from external pricing services or dealer market participants and are classified in level 2 of the fair value hierarchy. Quarterly, the Company evaluates the methodologies used by its external pricing services to develop the fair values to determine whether the results of the valuations are representative of an exit price in the Company's principal markets and an appropriate representation of fair value.

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

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CDOs are classified in level 3 of the fair value hierarchy. The Company estimates the fair values for each CDO using discounted cash flow analyses with the assistance of a structured credit valuation firm. This methodology relies on credit analysis and review of historical financial data for each of the issuers of the securities underlying the individual CDO (the "Issuers") to estimate the cash flows. These estimates are highly subjective and sensitive to several significant, unobservable inputs, including prepayment assumptions, default probabilities, loss given default assumptions, and deferral cure probabilities. The cash flows for each Issuer are then discounted to present values using LIBOR plus an adjustment to reflect the higher risk inherent in these securities given their complex structures and the impact of market factors. Finally, the discounted cash flows for each Issuer are aggregated to derive the estimated fair value for the specific CDO. Information for each CDO, as well as the significant unobservable assumptions, is presented in the following table.

Characteristics of CDOs and Significant Unobservable Inputs
Used in the Valuation of CDOs as of September 30, 2013
(Dollar amounts in thousands)

	CDO Number					
	1	2	3	4	5	6
Characteristics:						
Class	C-1	C-1	C-1	B1	C	C
Original par	$17,500	$15,000	$15,000	$15,000	$10,000	$6,500
Amortized cost	7,140	5,598	12,377	13,922	1,317	6,178
Fair value	4,034	373	4,196	5,340	1,017	2,036
Lowest credit rating (Moody's)	Ca	Ca	Ca	Ca	C	Ca
Number of underlying Issuers	43	55	60	59	55	77
Percent of Issuers currently performing	79.1%	76.4%	78.3%	54.2%	63.6%	66.2%
Current deferral and default percent [1]	14.6%	16.6%	11.3%	34.8%	40.1%	28.7%
Expected future deferral and default percent [2]	17.2%	16.2%	15.3%	28.6%	25.3%	14.8%
Excess subordination percent [3]	—%	—%	—%	—%	—%	1.2%
Discount rate risk adjustment [4]	14.0%	15.0%	14.0%	13.0%	14.0%	12.5%
Significant unobservable inputs, weighted average of Issuers:						
Probability of prepayment	15.3%	7.6%	4.8%	6.0%	5.3%	1.8%
Probability of default	21.7%	25.4%	21.9%	28.0%	39.7%	31.2%
Loss given default	88.0%	89.3%	89.3%	92.9%	92.7%	95.3%
Probability of deferral cure	40.3%	38.1%	26.3%	53.4%	35.9%	45.2%

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

(2) Represents expected future net deferrals and defaults, net of recoveries, as a percent of the remaining performing collateral. The probability of future defaults is derived for each Issuer based on a credit analysis. The associated assumed loss given default is based on historical default and recovery information provided by a nationally recognized credit rating agency and is assumed to be 90% for banks, 85% for insurance companies, and 100% for Issuers that have already defaulted.

(3)

Represents additional defaults that the CDO can absorb before the security experiences any credit impairment. The excess subordination percentage is calculated by dividing the amount of potential additional loss that can be absorbed (before the receipt of all expected future principal and interest payments is affected) by the total balance of performing collateral.

(4) Cash flows are discounted at LIBOR plus this adjustment to reflect the higher risk inherent in these securities.

Most Issuers have the right to prepay its securities on the fifth anniversary of issuance and under other limited circumstances. To estimate prepayments, a credit analysis of each Issuer is performed to estimate its ability and likelihood to fund a prepayment. If a prepayment occurs, the Company receives cash equal to the par value for the portion of the CDO associated with that Issuer.

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

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

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

A rollforward of the carrying value of CDOs for the quarters and nine months ended September 30, 2013 and 2012 is presented in the following table.

Rollforward of the Carrying Value of CDOs
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Beginning balance	$14,917	$11,082	$12,129	$13,394
Total income (loss):				
OTTI included in earnings [1]	—	—	—	(2,126)
Included in other comprehensive income [2]	2,079	464	4,867	278
Ending balance [3]	$16,996	$11,546	$16,996	$11,546
Change in unrealized losses recognized in earnings related to securities still held at end of period	$—	$—	$—	$(2,126)

(1) Included in net securities gains (losses) in the Condensed Consolidated Statements of Income and related to securities still held at the end of the period.
(2) Included in unrealized holding gains (losses) in the Consolidated Statements of Comprehensive Income.
(3) There were no purchases, issuances, or settlements of CDOs during the periods presented. One CDO with a carrying value of zero was sold during the nine months ended September 30, 2013, resulting in a gain of $101,000.

Mortgage Servicing Rights

The Company services loans for others totaling $202.5 million as of September 30, 2013 and $109.7 million as of December 31, 2012. These loans are owned by third parties and are not included in the Consolidated Statements of Condition. The Company estimates the fair value of mortgage servicing rights by using a discounted cash flow analysis and classifies them in level 3 of the fair value hierarchy. Additional information regarding the Company's mortgage servicing rights can be found in Note 22, "Fair Value," in the Company's 2012 10-K.

Derivative Assets and Derivative Liabilities

The Company enters into interest rate swaps that are executed in the dealer market, and pricing is based on market quotes obtained from the counterparty. The market quotes were developed using market observable inputs, which primarily include LIBOR. Therefore, derivatives are classified in level 2 of the fair value hierarchy. For its derivative assets and liabilities, the Company also considers non-performance risk, including the likelihood of default by itself

and its counterparties, when evaluating whether the market quotes from the counterparty are representative of an exit price. The Company also enters into derivative transactions with commercial customers and simultaneously enters into an offsetting interest rate derivative transaction with a third party, which are valued using market consensus prices.

Pension Plan Assets

Although pension plan assets are not consolidated in the Company's Consolidated Statements of Financial Condition, the fair value of pension plan assets is required to be measured on an annual basis. Additionally, pension plan assets were remeasured as of June 30, 2013 as a result of the amendment to freeze the benefit accruals under the Pension Plan. Refer to Note 9, "Employee

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Benefit Plans" for additional discussion regarding this change. The fair value of pension plan assets is presented in the following table by level in the fair value hierarchy.

Fair Value Measurements for Pension Plan Assets
(Dollar amounts in thousands)

	September 30, 2013			December 31, 2012		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Pension plan assets:						
Mutual funds [1]	$24,761	$—	$24,761	$16,009	$—	$16,009
U.S. government and government agency securities	9,797	7,425	17,222	6,510	7,295	13,805
Corporate bonds	—	6,110	6,110	—	8,653	8,653
Common stocks	14,861	—	14,861	15,001	—	15,001
Common trust funds	—	10,030	10,030	—	10,033	10,033
Total pension plan assets	$49,419	$23,565	$72,984	$37,520	$25,981	$63,501

[1] Includes mutual funds, money market funds, cash, cash equivalents, and accrued interest.

Mutual funds, certain U.S. government agency securities, and common stocks are based on quoted market prices in active exchange markets and classified in level 1 of the fair value hierarchy. Corporate bonds, certain U.S. government agency, and U.S. Treasury securities are valued at quoted prices from independent sources that are based on observable market trades or observable prices for similar bonds where a price for the identical bond is not observable and, therefore, are classified as level 2 of the fair value hierarchy. Common trust funds are valued at quoted redemption values on the last business day of the Plan's year end and are classified as level 2 in the fair value hierarchy.

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

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

Non-Recurring Fair Value Measurements
(Dollar amounts in thousands)

	September 30, 2013			December 31, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Collateral-dependent impaired loans	$—	$—	$11,996	$—	$—	$61,454
OREO [1]	—	—	10,252	—	—	11,956
Loans held-for-sale [2]	—	—	1,191	—	—	—
Assets held-for-sale [3]	—	—	4,000	—	—	1,668

[1] Includes OREO and covered OREO with fair value adjustments subsequent to initial transfer.
[2] Included in other assets in the Consolidated Statements of Financial Condition.
[3] Included in premises, furniture, and equipment in the Consolidated Statements of Financial Condition.

Collateral-Dependent Impaired Loans

Certain collateral-dependent impaired loans are subject to fair value adjustments to reflect the difference between the carrying value of the loans and the value of the underlying collateral. The fair values of collateral-dependent impaired loans are primarily determined by current appraised values of the underlying collateral. Based on the age and/or type, appraisals may be adjusted in the range of 0% -20%. In certain cases, an internal valuation may be used when the underlying collateral is located in areas where comparable sales data is limited or unavailable. Accordingly, collateral-dependent impaired loans are classified in level 3 of the fair value hierarchy.

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

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OREO

The fair value of OREO is measured using the current appraised value of the properties. In certain circumstances, a current appraisal may not be available or may not represent an accurate measurement of the property's fair value due to outdated market information or other factors. In these cases, the fair value is determined based on the lower of the (i) most recent appraised value, (ii) broker price opinion, (iii) current listing price, or (iv) signed sales contract. Given these valuation methods, OREO is classified in level 3 of the fair value hierarchy. Any valuation adjustments for reductions in the fair value of OREO are recognized in the Company's operating results in the period in which they occur.

Loans Held-for-Sale

As of September 30, 2013, loans held-for-sale consisted of 1-4 family mortgage loans. The Company had no loans held-for-sale as of December 31, 2012.

Assets Held-for-Sale

As of September 30, 2013, assets held-for-sale consisted of three former bank branches that are no longer in operation, which were transferred into the held-for-sale category at their recorded investment as an approximation of fair value. Therefore, they are classified in level 3 of the fair value hierarchy.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Charged to allowance for loan and covered loan losses:				
Collateral-dependent impaired loans	$4,604	$43,414	$15,812	$79,828
Loans held-for-sale	—	80,260	1,560	82,647
Charged to earnings:				
OREO	243	1,410	829	3,924
Assets held-for-sale	—	1,255	—	1,255

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Financial Instruments Not Required to be Measured at Fair Value

For certain financial instruments that are not required to be measured at fair value in the Consolidated Statements of Financial Condition, the Company must disclose the estimated fair values and the level within the fair value hierarchy as shown in the following table.

Fair Value Measurements of Other Financial Instruments
(Dollar amounts in thousands)

	Fair Value Hierarchy Level	September 30, 2013		December 31, 2012	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and due from banks	1	$155,075	$155,075	$149,420	$149,420
Interest-bearing deposits in other banks	2	744,163	744,163	566,846	566,846
Securities held-to-maturity	2	29,847	29,542	34,295	36,023
FHLB and Federal Reserve Bank stock	2	35,161	35,161	47,232	47,232
Net loans	3	5,511,406	5,440,441	5,288,124	5,305,286
FDIC indemnification asset	3	18,078	11,902	37,051	27,040
Accrued interest receivable	3	28,155	28,155	27,535	27,535
Investment in BOLI	3	193,979	193,979	206,405	206,405
Other interest earning assets	3	7,374	8,475	9,923	10,640
Liabilities:					
Deposits	2	$7,003,208	$6,999,214	$6,672,255	$6,674,510
Borrowed funds	2	212,058	213,995	185,984	189,074
Senior and subordinated debt	1	214,876	222,755	214,779	216,686
Accrued interest payable	2	5,852	5,852	2,884	2,884
Standby letters of credit	2	659	659	740	740

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

Short-Term Financial Assets and Liabilities - For financial instruments with a shorter-term or with no stated maturity, prevailing market rates, and limited credit risk, the carrying amounts approximate fair value. Those financial instruments include cash and due from banks, interest-bearing deposits in other banks, and other short-term investments, 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.

FHLB and Federal Reserve Bank Stock - The carrying amounts approximate fair value.

Net Loans - Net loans includes loans, covered loans, and the allowance for loans and covered loan losses. The fair value of loans is estimated using the present value of the future cash flows of the remaining maturities of the loans. Prepayment assumptions that consider the Company’s historical experience and current economic and lending

conditions were included. The discount rate was based on the LIBOR yield curve with adjustments for liquidity and credit risk. The primary impact of credit risk on the fair value of the loan portfolio was accommodated through the use of the allowance for loan and covered loan losses, which is believed to represent the current fair value of estimated inherent losses for purposes of the fair value calculation.

The fair value of the covered loan portfolio is determined by discounting the estimated cash flows at a market interest rate, which is derived from LIBOR swap rates over the life of those loans. The estimated cash flows are determined using the contractual terms of the covered loans, net of any projected credit losses. For valuation purposes, these loans are placed into groups with similar characteristics and risk factors, where appropriate. The timing and amount of credit losses for each group are estimated

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using historical default and loss experience, current collateral valuations, borrower credit scores, and internal risk ratings. For individually significant loans or credit relationships, the estimated fair value is determined by a specific loan level review utilizing appraised values for collateral and projections of the timing and amount of cash flows.

FDIC Indemnification Asset - The fair value of the FDIC indemnification asset is calculated by discounting the cash flows expected to be received from the FDIC. The future cash flows are estimated by multiplying expected losses on covered loans and covered OREO by the reimbursement rates in the FDIC Agreements.

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

Other Interest-Earning Assets - The fair value of other interest-earning assets is estimated using the present value of the future cash flows of the remaining maturities of the assets.

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

Borrowed Funds - The fair value of FHLB advances is estimated by discounting the agreements based on maturities using the rates currently offered for repurchase agreements of similar remaining maturities adjusted for prepayment penalties that would be incurred if the borrowings were paid off on the measurement date. The carrying amounts of federal funds purchased, repurchase agreements, federal term auction facilities, and other borrowed funds approximate their fair value due to their short-term nature.

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

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

Commitments - The Company estimated the fair value of commitments outstanding to be immaterial based on the following factors: (i) the limited interest rate exposure of the commitments outstanding due to their variable nature, (ii) the short-term nature of the commitment periods, (iii) termination clauses provided in the agreements, and (iv) the market rate of fees charged.

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

INTRODUCTION

First Midwest Bancorp, Inc. (the "Company") is a bank holding company headquartered in the Chicago suburb of Itasca, Illinois with operations throughout the greater Chicago metropolitan area as well as northwest Indiana, central and western Illinois, and eastern Iowa. Our principal subsidiary is First Midwest Bank (the "Bank"), which provides a broad range of commercial and retail banking and wealth management services to consumer, commercial and industrial, commercial real estate, and municipal customers through approximately 90 banking offices. 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.

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 months ended September 30, 2013 and 2012. When we use the terms "First Midwest," the "Company," "we," "us," and "our," we mean First Midwest Bancorp, Inc., a Delaware Corporation, and it 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 2012 Annual Report on Form 10-K ("2012 10-K"). The results of operations for the quarter and nine months ended September 30, 2013 are not necessarily indicative of future results.

Our primary sources of revenue are net interest income and fees from financial services provided to our customers. Our largest expenses include interest expense, compensation expense, and various other noninterest expense items.

Our results of operations are affected by various factors, many of which are beyond our control, including interest rates, local and national economic conditions, business spending, consumer confidence, certain seasonal factors, legislative and regulatory changes, and changes in real estate and securities markets. Our management evaluates performance using a variety of qualitative and quantitative metrics. The primary quantitative metrics used by management include: