FIRST MIDWEST BANCORP INC
Form 10-Q
November 06, 2009

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

FORM 10-Q
(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2009

or

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

Commission File Number 0-10967

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

Delaware	36-3161078
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

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

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

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

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

As of November 6, 2009, there were 54,799,534 shares of $.01 par value common stock outstanding.

FIRST MIDWEST BANCORP, INC.

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

AVAILABLE INFORMATION

We file annual, quarterly, and current reports; proxy statements; and other information with the Securities and Exchange Commission ("SEC"), and we make this information available free of charge on or through the investor relations section of our web site at www.firstmidwest.com/aboutinvestor_overview.asp. The following documents are also posted on our web site or are available in print upon the request of any stockholder to our Corporate Secretary:

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

Within the time period required by the SEC and the Nasdaq Stock Market, we will post on our web site any amendment to the Code and any waiver applicable to any executive officer, director, or senior financial officer (as defined in the Code). In addition, our web site includes information concerning purchases and sales of our securities by our executive officers and directors, as well as any disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast, or by similar means from time to time.

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

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

We include or incorporate by reference in this Quarterly Report on Form 10-Q, and from time to time our management may make, statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not historical facts, but instead represent only management's beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. Although we believe the expectations reflected in any forward-looking statements are reasonable, it is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in such statements. In some cases, you can identify these statements by forward-looking words such as "may," "might," "will," "should," "expect," "plan," "anticipate," "believe," "predict," "potential," or "continue," and the negative of these terms and other comparable terminology. We caution you not to place undue reliance on forward-looking statements, which speak only as of the date of this report, or when made.

Forward-looking statements are subject to known and unknown risks, uncertainties, and assumptions and may include projections relating to our future financial performance including our growth strategies and anticipated trends in our business. For a detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements, you should refer to our Annual Report on Form 10-K for the year ended December 31, 2008 and the sections entitled “Risk Factors” in Part II Item 1A of this report and “Management’s Discussion and Analysis of Results of Operations,” as well as our subsequent periodic and current reports filed with the SEC. These risks and uncertainties are not exhaustive however. Other sections of this report describe additional factors that could adversely impact our business and financial performance.

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

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PART 1. FINANCIAL INFORMATION (Unaudited)

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Cash and due from banks	$ 115,905	$ 106,082
Federal funds sold and other short-term investments	81,693	8,226
Trading account securities	13,231	12,358
Securities available-for-sale, at fair value	1,349,669	2,216,186
Securities held-to-maturity, at amortized cost	83,860	84,306
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	54,768	54,767
Loans	5,306,068	5,360,063
Reserve for loan losses	(134,269)	(93,869)
Net loans	5,171,799	5,266,194
Other real estate owned	57,945	24,368
Premises, furniture, and equipment	122,083	120,035
Accrued interest receivable	34,939	43,247
Investment in bank owned life insurance	197,681	198,533
Goodwill	262,886	262,886
Other intangible assets	18,728	21,662
Other assets	113,247	109,491
Total assets	$ 7,678,434	$ 8,528,341
Liabilities		
Demand deposits	$ 1,069,870	$ 1,040,763
Savings deposits	739,577	747,079
NOW accounts	980,127	915,691
Money market deposits	1,043,693	754,421
Time deposits	1,915,886	2,127,800
Total deposits	5,749,153	5,585,754
Borrowed funds	716,299	1,698,334
Subordinated debt	157,717	232,409
Accrued interest payable	8,620	10,550
Payable for securities purchased	757	17,537
Other liabilities	62,309	75,478
Total liabilities	6,694,855	7,620,062
Stockholders' Equity		
Preferred stock, no par value; authorized 1,000 shares, issued and outstanding: 193 shares	190,076	189,617
Common stock, \$.01 par value; authorized 100,000 shares; issued: September 30, 2009 – 66,969 shares; December 31, 2008 – 61,326 shares; outstanding: September 30, 2009 – 54,800 shares; December 31, 2008 – 48,630 shares	670	613

Additional paid-in capital		251,423		210,698
Retained earnings		851,178		837,390
Accumulated other comprehensive loss, net of tax		(16,217)		(18,042)
Treasury stock, at cost: September 30, 2009 – 12,169 shares December 31, 2008 – 12,696 shares		(293,551)		(311,997)
Total stockholders' equity		983,579		908,279
Total liabilities and stockholders' equity	$	7,678,434	$	8,528,341

See accompanying notes to unaudited consolidated financial statements.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Interest Income				
Loans	$66,035	$74,929	$195,553	$231,082
Securities available-for-sale	15,277	25,072	59,644	75,507
Securities held-to-maturity	1,001	1,068	2,994	3,358
Federal Home Loan Bank and Federal Reserve Bank stock	310	329	907	999
Federal funds sold and other short-term investments	139	88	283	328
Total interest income	82,762	101,486	259,381	311,274
Interest Expense				
Deposits	15,324	25,574	51,403	87,820
Borrowed funds	2,768	9,451	11,293	30,776
Subordinated debt	3,689	3,703	11,094	11,094
Total interest expense	21,781	38,728	73,790	129,690
Net interest income	60,981	62,758	185,591	181,584
Provision for loan losses	38,000	13,029	122,672	27,869
Net interest income after provision for loan losses	22,981	49,729	62,919	153,715
Noninterest Income				
Service charges on deposit accounts	10,046	11,974	28,777	33,781
Trust and investment advisory fees	3,555	3,818	10,355	11,710
Other service charges, commissions, and fees	4,222	4,834	12,249	14,292
Card-based fees	4,023	4,141	11,826	12,275
Bank owned life insurance income	282	1,882	1,982	6,489
Securities gains (losses), net	(6,975)	(1,746)	7,882	(1,396)
Gains on early extinguishment of debt	13,991	-	13,991	-
Trading gains (losses), net	1,359	(1,831)	2,097	(3,211)
Other income	587	622	2,096	2,196
Total noninterest income	31,090	23,694	91,255	76,136
Noninterest Expense				
Salaries and wages	22,274	20,805	60,940	59,972
Retirement and other employee benefits	5,142	6,191	18,016	19,582
Federal Deposit Insurance Corporation (“FDIC”) premiums	2,558	261	10,953	764
Net occupancy expense	5,609	5,732	17,309	17,411
Equipment expense	2,228	2,484	6,754	7,502
Technology and related costs	2,230	1,990	6,612	5,581
Professional services	3,769	2,516	10,428	7,421
Other real estate expense, net	3,461	637	7,766	2,120
Advertising and promotions	2,237	1,133	5,039	3,883
Merchant card expense	1,729	1,949	4,901	5,375
Other expenses	5,403	4,738	15,549	18,113
Total noninterest expense	56,640	48,436	164,267	147,724
(Loss) income before income tax (benefit) expense	(2,569)	24,987	(10,093)	82,127
Income tax (benefit) expense	(5,920)	796	(21,834)	5,901
Net income	3,351	24,191	11,741	76,226
Preferred dividends	(2,567)	-	(7,696)	-

Net income applicable to non-vested restricted shares	(11)	(42)	(54)	(176)
Net income applicable to common shares	$773	$24,149	$3,991	$76,050
Per Common Share Data				
Basic earnings per share	$0.02	$0.50	$0.08	$1.57
Diluted earnings per share	$0.02	$0.50	$0.08	$1.57
Cash dividends per share	$0.01	$0.31	$0.03	$0.93
Weighted average shares outstanding	48,942	48,470	48,647	48,454
Weighted average diluted shares outstanding	48,942	48,499	48,647	48,518

See accompanying notes to unaudited 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	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance at January 1, 2008	48,453	$ -	613	$ 207,851	$ 844,972	$ (11,727)	$ (317,734)	$ 723,975
Comprehensive income:								
Net income	-	-	-	-	76,226	-	-	76,226
Other comprehensive loss: (1)								
Unrealized losses on securities	-	-	-	-	-	(40,080)	-	(40,080)
Total comprehensive income								36,146
Common dividends declared ($0.93 per common share)	-	-	-	-	(45,251)	-	-	(45,251)
Purchase of treasury stock	(4)	-	-	-	-	-	(137)	(137)
Share-based compensation expense	-	-	-	2,916	-	-	-	2,916
Exercise of stock options and restricted stock activity	145	-	-	(3,242)	-	-	4,564	1,322
Treasury stock (purchased for) issued to benefit plans	(4)	-	-	(22)	-	-	(40)	(62)
Balance at September 30, 2008	48,590	$ -	$ 613	$ 207,503	$ 875,947	$ (51,807)	$ (313,347)	$ 718,909
Balance at January 1, 2009	48,630	$ 189,617	$ 613	$ 210,698	$ 837,390	$ (18,042)	$ (311,997)	$ 908,279
Cumulative effect of change in accounting for other-than-temporary impairment (2)	-	-	-	-	11,271	(11,271)	-	-
Adjusted balance at January 1, 2009	48,630	189,617	613	210,698	848,661	(29,313)	(311,997)	908,279
Comprehensive income (loss):								
Net income	-	-	-	-	11,741	-	-	11,741

Other comprehensive income (loss) (1):								
Unrealized gains on securities	-	-	-	-	-	14,102	-	14,102
Unrealized losses on funded status of pension plan	-	-	-	-	-	(1,006)	-	(1,006)
Total comprehensive income								24,837
Common dividends declared ($0.03 per common share)	-	-	-	-	(1,528)	-	-	(1,528)
Preferred dividends declared ($37.50 per preferred share)	-	-	-	-	(7,237)	-	-	(7,237)
Accretion on preferred stock	-	459	-	-	(459)	-	-	-
Issuance of common stock	5,643	-	57	56,754	-	-	-	56,811
Share-based compensation expense	-	-	-	2,499	-	-	-	2,499
Restricted stock activity	539	-	-	(18,430)	-	-	18,446	16
Treasury stock (purchased for) issued to benefit plans	(12)	-	-	(98)	-	-	-	(98)
Balance at September 30, 2009	54,800	$ 190,076	$ 670	$ 251,423	$ 851,178	$ (16,217)	$ (293,551)	$ 983,579

(1) Net of taxes and reclassification adjustments.

(2) For additional details of this adjustment, refer to Note 2, “Recent Accounting Pronouncements,” and Note 3, “Securities.”

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net cash provided by operating activities	$ 93,203	$ 104,949
Investing Activities		
Proceeds from maturities, repayments, and calls of securities available-for-sale	236,083	226,231
Proceeds from sales of securities available-for-sale	843,087	226,315
Purchases of securities available-for-sale	(157,229)	(463,298)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	51,037	40,870
Purchases of securities held-to-maturity	(50,551)	(29,117)
Net increase in loans	(111,159)	(302,029)
Proceeds from claims on bank owned life insurance	2,834	2,634
Proceeds from sales of other real estate owned	10,518	3,628
Proceeds from sales of premises, furniture, and equipment	24	720
Purchases of premises, furniture, and equipment	(3,440)	(3,957)
Net cash provided by (used in) investing activities	821,204	(298,003)
Financing Activities		
Net increase (decrease) in deposit accounts	163,399	(120,577)
Net (decrease) increase in borrowed funds	(982,035)	290,475
Purchases of treasury stock	-	(137)
Proceeds from the issuance of treasury stock	-	(62)
Cash dividends paid	(11,932)	(45,208)
Restricted stock activity	(370)	411
Excess tax expense related to share-based compensation	(179)	(48)
Net cash (used in) provided by financing activities	(831,117)	124,854
Net increase (decrease) in cash and cash equivalents	83,290	(68,200)
Cash and cash equivalents at beginning of period	114,308	194,837
Cash and cash equivalents at end of period	$ 197,598	$ 126,637
Supplemental Disclosures:		
Non-cash transfers of loans to other real estate owned	$ 57,140	$ 22,261
Dividends declared but unpaid	$ 549	$ 15,088
Non-cash transfer of loans to securities available-for-sale	$ 25,742	$ -
Non-cash transfers of other real estate owned to premises, furniture, and equipment	$ 6,860	$ -
Issuance of common stock in exchange for the extinguishment of subordinated debt	$ 57,966	$ -

See accompanying notes to unaudited consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements of First Midwest Bancorp, Inc. (the "Company"), a Delaware corporation, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include certain information and footnote disclosures required by U.S. generally accepted accounting principles ("GAAP") for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company's 2008 Annual Report on Form 10-K ("2008 10-K").

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the quarter and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The consolidated financial statements include the accounts and results of operations of the Company and its subsidiaries after elimination of all significant intercompany accounts and transactions. Certain reclassifications have been made to prior periods to conform to the current period presentation. U.S. GAAP requires management to make certain estimates and assumptions. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Measuring Liabilities at Fair Value: In August 2009, the FASB issued accounting guidance, which the Company adopted effective September 30, 2009, to address how to measure the fair value of a liability when there is (1) a lack of observable market information available to measure the liability, (2) a contractual restriction that may prevent the liability from being transferred, or (3) the possibility that nonperformance risk changes after a liability is transferred. In the last case, an existing liability may be transferred to a new obligor, but the transferee may not have the same nonperformance risk as the transferor. The guidance indicates that if a quoted price in an active market for the identical liability is available, the price represents a Level 1 measurement. In all other circumstances, fair value would be measured using one of the following techniques:

a. A valuation technique that uses:
   1. The quoted price of the identical liability when traded as an asset
   2. Quoted prices for similar liabilities or similar liabilities when traded as assets
b. Another valuation technique that is consistent with the fair value measurement principles, such as an income approach (e.g., present value technique), or a market approach, such as a technique based on the amount at the measurement date that the entity would pay to transfer the identical liability or would receive to enter into the identical liability.

The adoption of this guidance on September 30, 2009 did not result in a change to the Company's valuation techniques nor did it have a material impact on the Company's financial position, results of operations, or liquidity.

GAAP Codification: Effective July 1, 2009, the FASB Accounting Standards Codification and its related accounting guidance was released. The FASB Accounting Standards Codification ("FASB ASC") reorganizes U.S. GAAP pronouncements into approximately 90 accounting topics, includes relevant guidance from the SEC, and displays all topics in a consistent format. FASB ASC is now the single official source of non-governmental U.S. GAAP, superseding existing literature from the FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force (“EITF”) and related sources. All other non-grandfathered non-SEC accounting literature not included in the FASB ASC is considered non-authoritative.

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The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions ("FSPs"), or EITF abstracts. Instead, it will issue Accounting Standards Updates and will consider them authoritative in their own right. Since the FASB ASC does not change GAAP, the release of the FASB ASC and its related accounting guidance will not impact the Company's financial position, results of operations, or liquidity. However, it has changed how users research accounting issues and how the Company references accounting literature within its quarterly and annual SEC filings.

Consolidation of Variable Interest Entities: In June 2009, the FASB issued accounting guidance that changes how a company determines when a variable interest entity ("VIE") – an entity that is insufficiently capitalized or is not controlled through voting or similar rights – should be consolidated. This guidance replaces the quantitative approach for determining which company, if any, has a controlling financial interest in a VIE with a more qualitative approach focused on identifying which company has the power to direct the activities of a VIE that most significantly impact the entity's economic performance. Prior to issuance of this standard, a troubled debt restructuring was not an event that required reconsideration of whether an entity is a VIE and whether the company is the primary beneficiary of the VIE. This guidance eliminates that exception and requires ongoing reassessment of troubled debt restructurings and whether a company is the primary beneficiary of a VIE. In addition, it requires a company to disclose how its involvement with a VIE affects the company's financial statements. This guidance is effective for annual and interim periods beginning after November 15, 2009 (or January 1, 2010 for calendar-year companies) and is applicable to VIEs formed before and after the effective date. The Company is currently evaluating the impact of adopting this standard on its financial position, results of operations, and liquidity.

Transfers of Financial Assets: In June 2009, the FASB issued accounting guidance that requires a company to disclose more information about transfers of financial assets, including securitization transactions. It eliminates the concept of a "qualifying special-purpose entity" ("QSPE") from U.S. GAAP, changes the criteria for removing transferred assets from the balance sheet, and requires additional disclosures about a transferor's continuing involvement in transferred assets. This guidance is effective for financial asset transfers occurring after January 1, 2010 for calendar-year companies. The effect of these new requirements on the Company's financial position, results of operations, and liquidity will depend on the types and terms of financial asset transfers (including securitizations) executed by the Company in 2010 and beyond.

Fair Value Measurements: Effective January 1, 2008, the Company adopted FASB accounting guidance that provides a single definition of fair value, establishes a framework for measuring fair value, and requires additional disclosures about fair value measurements. This guidance applies whenever an entity is measuring fair value under other accounting standards that require or permit fair value measurements. On October 10, 2008, the FASB issued additional guidance that addressed the use of broker quotes and pricing services and how an entity's own input assumptions (such as discount rates used in cash flow projections) should be considered when measuring fair value when relevant observable market data does not exist. On April 9, 2009, the FASB provided further fair value measurement guidance that concludes that if there has been a significant decrease in the volume and level of activity in relation to the normal market activity, transactions or quoted prices may not be the best indicator of fair value. Further analysis of the transactions or quoted prices may be needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value. This guidance also expands disclosures by requiring entities to disclose its inputs and valuation assumptions for both interim and annual periods. In addition, the disclosures must be presented by major security type (such as mortgage-backed securities or collateralized debt obligations), rather than disclosure by major category (such as trading securities and available-for-sale securities).

The fair value guidance was effective for financial assets and liabilities on January 1, 2008 and for non-financial assets and liabilities on January 1, 2009. The guidance that addresses estimating fair value when the volume and level of activity in the market have decreased significantly was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company elected to early adopt effective for first quarter 2009. The adoption of these standards did not have a material impact on the

Company's financial position, results of operations, or liquidity. Refer to Note 16, "Fair Value," for the Company's fair value measurement disclosures.

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Subsequent Events: Effective July 1, 2009, the Company adopted FASB accounting guidance that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. This guidance defines (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The adoption of this standard did not have a material impact on the Company's financial position, results of operations, or liquidity. Refer to Note 17, "Subsequent Events," for the Company's subsequent events disclosures.

Interim Period Fair Value Disclosures: Effective April 1, 2009, the Company adopted FASB accounting guidance that requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. Since this guidance affects only disclosures, it did not impact the Company's financial position, results of operations, or liquidity upon adoption.

Other-Than-Temporary Impairment: Effective January 1, 2009, the Company adopted FASB accounting guidance related to the presentation and disclosure of other-than-temporary impairments on debt securities in its financial statements. Under the prior impairment guidance, an entity was required to assess whether it has the intent and ability to hold a security to recovery when determining whether the impairment is other-than-temporary. This guidance amends prior guidance, and, once an impairment has been determined, requires an entity to recognize only the credit portion of the other-than-temporary impairment in earnings for those debt securities where there is no intent to sell or it is more likely than not the entity would not be required to sell the security prior to expected recovery. The remaining portion of the other-than-temporary impairment is to be included in other comprehensive income.

This guidance was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company elected to early adopt during first quarter 2009. Refer to Note 3, "Securities," for the impact of adopting this guidance and Note 16, "Fair Value," for the Company's fair value measurement disclosures.

Business Combinations: Effective January 1, 2009, the Company adopted FASB accounting guidance that significantly changes how entities apply the acquisition method to business combinations. The guidance requires assets acquired, liabilities assumed, and noncontrolling interests in the acquiree to be measured at fair value on the acquisition date. This guidance requires the value of consideration paid, including any future contingent consideration, to be measured at fair value at the closing date of the transaction. Transaction costs and acquisition-related restructuring costs that do not meet certain criteria will be expensed as incurred rather than included in the cost of the acquisition. The acquirer also is not permitted to recognize at the acquisition date a reserve for loan losses. In addition, this guidance requires new and modified disclosures about subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values, cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward. The effect of these new requirements on the Company's financial position, results of operations, or liquidity will depend on the volume and terms of acquisitions in 2009 and beyond, but will likely increase the amount and change the timing of recognizing expenses related to acquisition activities.

Derivative Disclosures: Effective January 1, 2009, the Company adopted FASB accounting guidance that requires an entity to provide greater transparency about how its derivative and hedging activities affect its financial statements. This guidance requires enhanced disclosures about: (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for; and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. Since this guidance affects only disclosures, it did not impact the Company's financial position, results of operations, or liquidity upon adoption. Refer to Note 15, "Derivative Instruments and Hedging Activities," for the Company's derivative disclosures.

Disclosures about Pension Plan Assets: Effective January 1, 2009, the Company adopted FASB accounting guidance that requires additional disclosures about plan assets of a defined benefit pension or other postretirement plan. The guidance has two main objectives. First, it requires additional disclosures about major categories of plan assets and concentrations of risk within plan assets. Second, it applies to defined benefit plans by requiring disclosure of the inputs and valuation techniques used to measure the fair value of plan assets and the effect of fair value measurements using unobservable inputs on changes in plan assets for the period. Adoption of this guidance affects disclosures only and therefore had no impact on the Company's financial position, results of operations, or liquidity. The adoption of this guidance will impact future annual disclosures related to the Company's defined benefit pension plan.

Earnings Per Share Under Two-Class Method: Effective January 1, 2009, the Company adopted FASB accounting guidance that requires an entity to include participating share-based payment transactions, prior to vesting, in the earnings allocation in computing earnings per share. Participating share-based payment awards are those that contain nonforfeitable rights to dividends, even if granted prior to when an award vests. For the Company, participating share-based payment awards include restricted stock awards that have a right to receive dividends prior to vest. The adoption of this guidance did not have a material impact on the Company's earnings per share computations. Refer to Note 11, "Earnings Per Common Share," for the Company's earnings per share disclosures.

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3. SECURITIES

As discussed in Note 2, "Recent Accounting Pronouncements," effective January 1, 2009, the Company adopted accounting guidance related to the recognition of other-than-temporary impairment. The effect of the adoption as of January 1, 2009 is presented in the table below.

Incremental Effect on Individual Line Items
in the Consolidated Statements of Financial Condition
(Dollar amounts in thousands)

	Before Application of New Guidance	Adjustments	After Application of New Guidance
Securities available-for-sale, at amortized cost	$ 2,219,504	$ 18,477	$ 2,237,981
Unrealized (losses) on securities	(3,318)	(18,477)	(21,795)
Securities available-for-sale, at fair value	2,216,186	-	2,216,186
Prepaid income taxes (included in other assets)	-	(7,206)	(7,206)
Deferred income taxes (included in other assets)	1,290	7,206	8,496
Total assets	8,528,341	-	8,528,341
Retained earnings	837,390	11,271	848,661
Accumulated other comprehensive (loss)	(18,042)	(11,271)	(29,313)
Total stockholders' equity	908,279	-	908,279

Securities Portfolio
(Dollar amounts in thousands)

	September 30, 2009				December 31, 2008			
	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. Treasury	$ -	$ -	$ -	$ -	$ 1,039	$ 2	$ -	$ 1,041
U.S. Agency	757	-	-	757	-	-	-	-
Collateralized mortgage obligations	322,780	10,651	(2,224)	331,207	694,285	7,668	(3,114)	698,839
Other mortgage-backed securities	233,396	10,782	(3)	244,175	504,918	13,421	(74)	518,265
State and municipal	680,216	29,176	(1,078)	708,314	907,036	12,606	(12,895)	906,747
Collateralized debt obligations	60,290	-	(44,747)	15,543	78,883	-	(36,797)	42,086
Corporate debt	35,787	244	(1,638)	34,393	35,731	180	(2,586)	33,325
Equity	15,142	334	(196)	15,280	16,089	33	(239)	15,883
Total	$ 1,348,368	$ 51,187	$ (49,886)	$ 1,349,669	$ 2,237,981	$ 33,910	$ (55,705)	$ 2,216,186

	September 30, 2009				December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity								
State and municipal	$ 83,860	$ 370	$ -	$ 84,230	$ 84,306	$ 286	$ -	$ 84,592
Trading Securities (1)				$ 13,231				$ 12,358

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

Remaining Contractual Maturity of Securities
(Dollar amounts in thousands)

	September 30, 2009			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$ 9,515	$ 9,294	$ 11,348	$ 11,398
One year to five years	147,260	143,841	26,337	26,453
Five years to ten years	499,022	487,435	18,925	19,009
After ten years	121,253	118,437	27,250	27,370
Collateralized mortgage obligations	322,780	331,207	-	-
Other mortgage-backed securities	233,396	244,175	-	-
Equity securities	15,142	15,280	-	-
Total	$1,348,368	$1,349,669	$ 83,860	$ 84,230

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

Securities Gains (Losses)
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Proceeds from sales	$ 119,566	$ 6,191	$ 843,087	$ 226,315
Gains (losses) on sales of securities:				
Gross realized gains	4,532	48	26,461	8,644
Gross realized losses	(7)	-	(8)	(3)
Net realized gains on securities sales	4,525	48	26,453	8,641
Non-cash impairment charges	(11,500)	(1,794)	(18,571)	(10,037)
Net realized (losses) gains	$ (6,975)	$ (1,746)	$ 7,882	$ (1,396)
Income tax (benefit) expense on net realized (losses) gains	$ (2,720)	$ (681)	$ 3,074	$ (544)
Trading gains (losses), net (1)	$ 1,359	$ (1,831)	$ 2,097	$ (3,211)

(1) Trading gains (losses), net, representing changes in the fair value of the trading securities portfolio, are included as a component of noninterest income in the Consolidated Statements of Income.

During the first nine months of 2008, the Company recorded other-than-temporary impairments ("OTTI") of $10.0 million related to six asset-backed collateralized debt obligations ("CDO"). During the first nine months of 2009, the Company recorded OTTI of $18.6 million related to five trust preferred CDOs. Accounting guidance requires that only the credit portion of an OTTI be recognized through income beginning first quarter 2009. In deriving the credit component of the impairment on these five CDOs, future projected cash flows were discounted at the contractual rate ranging from LIBOR plus 125 basis points to LIBOR plus 160 basis points. If a decline in fair value below carrying value was not attributable to credit loss and the Company did not intend to sell the security or believe it would be more likely than not required to sell the security prior to recovery, the Company recorded the decline in fair value in accumulated other comprehensive income.

Changes in the amount of credit losses recognized in earnings on trust preferred CDOs are summarized in the following table.

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

	Quarter Ended September 30, 2009	Nine Months Ended September 30, 2009
Balance at beginning of period	$ 13,402	$ 6,331
Credit losses included in earnings (1)		
Losses recognized on securities that previously had credit losses	5,594	10,364
Losses recognized on securities that did not previously have credit losses	5,906	8,207
Cash collections	-	-
Changes in credit losses due to securities sales	-	-
Changes in credit losses due to a change in intention to sell	-	-
Balance at end of period	$ 24,902	$ 24,902

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

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

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of September 30, 2009						
Collateralized mortgage obligations	$ 87	$ -	$ 17,380	$ 2,224	$ 17,467	$ 2,224
Other mortgage-backed securities	-	-	316	3	316	3
State and municipal	1,727	2	25,750	1,076	27,477	1,078
Collateralized debt obligations	-	-	15,543	44,747	15,543	44,747
Corporate debt securities	-	-	26,755	1,638	26,755	1,638
Equity securities	-	-	109	196	109	196
Total	$ 1,814	$ 2	$ 85,853	$ 49,884	$ 87,667	$ 49,886
As of December 31, 2008						
Collateralized mortgage obligations	$ 27,142	$ 49	$ 39,923	$ 3,065	$ 67,065	$ 3,114
Other mortgage-backed securities	113	1	6,246	73	6,359	74
State and municipal	144,997	5,783	174,141	7,112	319,138	12,895
Collateralized debt obligations	-	-	28,004	36,797	28,004	36,797
Corporate debt securities	23,092	2,586	-	-	23,092	2,586
Equity securities	-	-	1,065	239	1,065	239
Total	$ 195,344	$ 8,419	$ 249,379	$ 47,286	$ 444,723	$ 55,705

Collateralized mortgage obligations and other mortgage-backed securities are either backed by U.S. Government-owned agencies or issued by U.S. Government-sponsored enterprises. State and municipal securities are issuances by state and municipal authorities, all of which carry investment grade ratings, with the majority supported by third-party insurance. Management does not believe any individual unrealized loss as of September 30, 2009 represents an other-than-temporary impairment. The unrealized losses associated with these securities are not believed to be attributable to credit quality, but rather to changes in interest rates and temporary market movements. In addition, the Company has both the intent and ability to hold the securities with unrealized losses for a period of time necessary to recover the amortized cost, or to maturity and more than likely will not be forced to sell them before recovering its cost basis.

The unrealized loss on CDOs as of September 30, 2009 of $44.7 million reflects the market's negative bias toward structured investment vehicles given the current interest rate and liquidity environment. The Company does not believe this loss is an other-than-temporary impairment. The Company expects no further reduction in its net cash flows from these investments from what has already been recognized, and the Company has both the intent and ability to hold them until maturity or recovery and more than likely will not be forced to sell them before recovering its cost basis. The Company's estimation of cash flows for these investments and resulting fair values were based upon cash flow modeling, as described in Note 16, "Fair Value."

The unrealized losses in the Company's investment in other securities consist of unrealized losses on corporate bonds and equity securities and relate to temporary movements in the financial markets. Management does not believe any individual unrealized loss as of December 31, 2009 represents an other-than-temporary impairment.

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4. LOANS

Loan Portfolio
(Dollar amounts in thousands)

	September 30, 2009	December 31, 2008
Commercial and industrial	$ 1,484,601	$ 1,490,101
Agricultural	200,955	216,814
Commercial real estate:		
Office, retail, and industrial	1,151,276	1,025,241
Residential construction	400,502	509,059
Commercial construction	196,198	258,253
Commercial land	105,264	98,322
Multi-family	342,807	286,963
Investor-owned rental property	117,276	131,635
Other commercial real estate	636,153	597,694
Total commercial real estate	2,949,476	2,907,167
Consumer	532,174	547,784
Real estate – 1-4 family	138,862	198,197
Total loans	$ 5,306,068	$ 5,360,063
Deferred loan fees included in total loans	$ 8,309	$ 8,503
Overdrawn demand deposits included in total loans	$ 3,835	$ 7,702

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

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

5. SECURITIZATIONS AND MORTGAGE SERVICING RIGHTS

In September 2009, the Company securitized $25.7 million of real estate 1-4 family loans, converting the loans into mortgage-backed securities issued through the Federal National Mortgage Association. The Company retained servicing responsibilities for the mortgages supporting these securities and collects servicing fees equal to a percentage of the outstanding principal balance of the loans being serviced. The Company also services loans from prior securitizations and services loans for which the servicing was acquired as part of a 2006 bank acquisition. Mortgage loans serviced for and owned by third parties are not included in the Consolidated Statements of Financial Condition. The unpaid principal balance of these loans totaled $131.5 million as of September 30, 2009 and $130.7 million as of December 31, 2008. The Company has no recourse for credit losses on the loans securitized in 2009 or the loans previously serviced by the acquired bank, but retains limited recourse for credit losses on $8.4 million of loans securitized during 2004. For a discussion of the recourse obligation, refer to Note 14, "Commitments, Guarantees, and Contingent Liabilities."

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Balance at beginning of period	$ 1,005	$ 1,632	$ 1,461	$ 1,877
New servicing assets	237	-	237	-
Total losses included in earnings (1):				
Due to changes in valuation inputs and assumptions (2)	(74)	(68)	(350)	(122)
Other changes in fair value (3)	(69)	(64)	(249)	(255)
Balance at end of period	$ 1,099	$ 1,500	$ 1,099	$ 1,500
Contractual servicing fees earned during the period (1)	$ 72	$ 93	$ 235	$ 298

(1) Included in other service charges, commissions, and fees in the Consolidated Statements of Income.
(2) Principally reflects changes in prepayment speed assumptions.
(3) Primarily represents changes in expected cash flows over time due to payoffs and paydowns.

The Company records its mortgage servicing rights at fair value. Under the fair value method, the Company initially records any mortgage servicing rights at their estimated fair value in other assets in the Consolidated Statements of Financial Condition. Fair value is subsequently determined by estimating the present value of the future cash flows associated with the mortgage loans serviced. Key economic assumptions used in measuring the fair value of mortgage servicing rights at September 30, 2009 included a weighted-average prepayment speed of 24.8% and a weighted-average discount rate of 11.6%. The Company uses market-based data for assumptions related to the valuation of mortgage servicing rights.

6. RESERVE FOR LOAN LOSSES AND IMPAIRED LOANS

Reserve for Loan Losses
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Balance at beginning of period	$ 127,528	$ 66,104	$ 93,869	$ 61,800
Loans charged-off	(32,118)	(9,721)	(84,301)	(21,453)
Recoveries of loans previously charged-off	859	399	2,029	1,595
Net loans charged-off	(31,259)	(9,322)	(82,272)	(19,858)
Provision for loan losses	38,000	13,029	122,672	27,869
Balance at end of period	$ 134,269	$ 69,811	$ 134,269	$ 69,811

Impaired, Non-accrual, and Past Due Loans
(Dollar amounts in thousands)

	September 30, 2009	December 31, 2008

Impaired loans:				
Impaired loans with valuation reserve required (1)	$	157,241	$	58,439
Impaired loans with no valuation reserve required		113,054		72,397
Total impaired loans	$	270,295	$	130,836
Non-accrual loans:				
Impaired loans on non-accrual	$	243,577	$	123,492
Other non-accrual loans (2)		13,228		4,276
Total non-accrual loans	$	256,805	$	127,768

	September 30, 2009		December 31, 2008	
Restructured loans	$	26,718	$	7,344
Loans past due 90 days or more and still accruing interest	$	5,960	$	36,999
Valuation reserve related to impaired loans	$	36,334	$	10,177

(1) These impaired loans require a valuation reserve because the estimated value of the loans or related collateral less estimated selling costs is less than the recorded investment in the loans.

(2) These loans are not considered for impairment since they are part of a small balance, homogeneous portfolio.

The average total recorded investment in impaired loans was $207.0 million for the nine months ended September 30, 2009 and $27.5 million for the nine months ended September 30, 2008. Interest income recognized on impaired loans was $99,000 for the nine months ended September 30, 2009 and $53,000 for the nine months ended September 30, 2008. Interest income recognized on impaired loans is recorded using the cash basis of accounting. As of September 30, 2009, the Company had $39.9 million of additional funds committed to be advanced in connection with impaired loans.

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7. ASSETS HELD FOR SALE

During first quarter 2009, the Company classified ten parcels of vacant land as held for sale. During third quarter 2009, the Company reclassified these lots as held for use since the Company no longer expects that it will be able to sell the properties within one year due to a declining real estate market. The total carrying value of $1.8 million as of September 30, 2009 is included in premises, furniture, and equipment in the Consolidated Statements of Financial Condition. The estimated fair value of these parcels is greater than the book value as of September 30, 2009. Therefore, no impairment loss was required to be recognized related to these properties. The Company had no assets classified as held for sale as of December 31, 2008.

8. SUBORDINATED DEBT

Subordinated Debt
(Dollar amounts in thousands)

	September 30, 2009	December 31, 2008
6.95% junior subordinated debentures due in 2033		
Principal amount	$ 87,350	$ 128,866
Discount	(82)	(125)
Basis adjustment related to fair value hedges (1)	-	3,749
Total junior subordinated debentures	87,268	132,490
5.85% subordinated debt due in 2016		
Principal amount	70,500	100,000
Discount	(51)	(81)
Total subordinated debt due in 2016	70,449	99,919
Total subordinated debt	$ 157,717	$ 232,409

(1)For additional discussion regarding the fair value hedges, refer to Note 15, "Derivative Instruments and Hedging Activities."

In 2006, the Company issued $100.0 million of 10-year subordinated notes (the "Notes"). The notes were issued at a discount and have a fixed coupon interest rate of 5.85%, per annum, payable semi-annually. The notes are redeemable prior to maturity only at the Company's option and are junior and subordinate to the Company's senior indebtedness. For regulatory capital purposes, the notes qualify as Tier 2 Capital.

In 2003, the Company formed First Midwest Capital Trust ("FMCT"), a statutory business trust, organized for the sole purpose of issuing trust securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole assets of the trust. The trust preferred securities of the trust represent preferred beneficial interests in the assets of the trust and are subject to mandatory redemption, in whole or in part, upon payment of the junior subordinated debentures held by the trust. The common securities of the trust are wholly owned by the Company. The trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the trust's obligations under the trust securities issued by the trust. The guarantee covers the distributions and payments on liquidation or redemption of the trust preferred securities, but only to the extent of funds held by the trust. Upon its formation, FMCT I issued $125.0 million of capital securities (the "Capital Securities"). The Capital Securities notes were issued at a discount and have a fixed coupon interest rate of 6.95%, per annum, payable semi-annually. The Capital Securities are redeemable prior to maturity only at the Company's option and are junior and subordinate to the Company's senior indebtedness. For regulatory capital purposes, the Capital Securities qualify as Tier 1 Capital.

In September 2009, the Company completed an offer to exchange a portion of the Notes and a separate offer to exchange a portion of the Capital Securities for newly issued shares of common stock of the Company. The exchanges strengthened the composition of First Midwest's capital base by increasing its Tier 1 common and tangible common equity ratios, while also reducing the interest expense associated with the debt securities.

As a result of the exchange offers, \$39.3 million of Capital Securities were retired at a discount of 20% in exchange for 3,058,410 shares of common stock of the Company, and \$29.5 million of Notes were retired at a discount of 10% in exchange for 2,584,695 shares of common stock of the Company. The number of shares issued was based on a price of \$10.272 per share. This price was calculated as the simple arithmetic average of the daily per share volume weighted average price of First Midwest's common stock for each of the five consecutive trading days ending on the second trading day immediately preceding the Expiration Date of the exchange offers, or September 22, 2009.

In the aggregate, the exchange offers resulted in recognition of \$14.0 million in pre-tax gains by the Company. These gains are shown as a separate component of noninterest income in the Consolidated Statements of Income.

9. MATERIAL TRANSACTIONS AFFECTING STOCKHOLDERS' EQUITY

As referred to above, in September 2009, the Company issued a total of 5,643,105 shares of common stock at a price of \$10.272 per share, a \$58.0 million increase in stockholders' equity.

On March 16, 2009, the Company's Board of Directors announced a reduction in its quarterly common stock dividend from \$0.225 per share to \$0.010 per share. This reduction approximates \$42 million in retained capital over the course of a year.

On May 27, 2009 and on August 31, 2009, the Company's Board of Directors announced additional quarterly common stock dividends of \$0.010 per share each.

10. COMPREHENSIVE INCOME

Comprehensive income is the total of reported net income and all other revenues, expenses, gains, and losses that bypass reported net income under U.S. GAAP. The Company includes the following items, net of tax, in other comprehensive income in the Consolidated Statements of Changes in Stockholders' Equity: changes in unrealized gains or losses on securities available-for-sale, changes in the fair value of derivatives designated under cash flow hedges, and changes in the funded status of the Company's pension plan.

Components of Other Comprehensive Income
(Dollar amounts in thousands)

	Nine Months Ended September 30, 2009			Nine Months Ended September 30, 2008		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Securities available-for-sale:						
Unrealized holding gains (losses)	\$ 30,978	\$ 12,069	\$ 18,909	\$ (67,096)	\$ (26,164)	\$ (40,932)
Less: Reclassification of net gains (losses) included in net income	7,882	3,075	4,807	(1,396)	(544)	(852)
	23,096	8,994	14,102	(65,700)	(25,620)	(40,080)

Net unrealized holding gains (losses)						
Funded status of pension plan:						
Unrealized holding losses	(1,650)	(644)	(1,006)	-	-	-
Total other comprehensive income (loss)	$ 21,446	$ 8,350	$ 13,096	$ (65,700)	$ (25,620)	$ (40,080)

Activity in Accumulated Other Comprehensive (Loss) Income
(Dollar amounts in thousands)

	Accumulated Unrealized Losses on Securities Available-for-Sale	Accumulated Unrealized Losses on Under-funded Pension Obligation	Total Accumulated Other Comprehensive Loss
Balance at January 1, 2008	$ (4,645)	$ (7,082)	$ (11,727)
2008 other comprehensive loss	(40,080)	-	(40,080)
Balance at September 30, 2008	$ (44,725)	$ (7,082)	$ (51,807)
Balance at January 1, 2009	$ (2,028)	$ (16,014)	$ (18,042)
Cumulative effect of change in accounting for other-than-temporary impairment	(11,271)	-	(11,271)
Adjusted balance at January 1, 2009	(13,299)	(16,014)	(29,313)
2009 other comprehensive income (loss)	14,102	(1,006)	13,096
Balance at September 30, 2009	$ 803	$ (17,020)	$ (16,217)

11. 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,	
	2009	2008	2009	2008
Net income	$ 3,351	$ 24,191	$ 11,741	$ 76,226
Preferred dividends	(2,412)	-	(7,237)	-
Accretion on preferred stock	(155)	-	(459)	-
Net income applicable to non-vested restricted shares	(11)	(42)	(54)	(176)
Net income applicable to common shares	$ 773	$ 24,149	$ 3,991	$ 76,050
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding (basic)	48,942	48,470	48,647	48,454
Dilutive effect of stock options	-	29	-	64
Weighted-average diluted common shares outstanding	48,942	48,499	48,647	48,518
Basic earnings per share	$ 0.02	$ 0.50	$ 0.08	$ 1.57
Diluted earnings per share	$ 0.02	$ 0.50	$ 0.08	$ 1.57
	3,964	2,698	4,009	2,484

Anti-dilutive shares not included in the computation of
diluted earnings per share (1)

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

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12. PENSION PLAN

Net Periodic Benefit Pension Expense
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Components of net periodic benefit cost:				
Service cost	$ 667	$ 827	$ 2,771	$ 2,854
Interest cost	653	822	2,727	2,836
Expected return on plan assets	(893)	(1,146)	(3,419)	(3,956)
Recognized net actuarial loss	226	132	1,159	458
Amortization of prior service cost	1	1	3	3
Net periodic cost	$ 654	$ 636	$ 3,241	$ 2,195

The Company contributed $8.0 million to its pension plan in April 2009.

13. INCOME TAXES

Income Tax Expense
(Dollar amounts in thousands)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(Loss) income before income tax (benefit) expense	$ (2,569)	$ 24,987	$ (10,093)	$ 82,127
Income tax (benefit) expense:				
Federal income tax (benefit) expense	$ (4,285)	$ 2,770	$ (15,079)	$ 13,824
State income tax (benefit)	(1,635)	(1,974)	(6,755)	(7,923)
Total income tax (benefit) expense	$ (5,920)	$ 796	$ (21,834)	$ 5,901
Effective income tax rate	N/M	3.2%	N/M	7.2%

N/M – Not meaningful.

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

The decrease in income tax expense from third quarter 2008 to third quarter 2009 was primarily attributable to a decrease in pre-tax income for those periods. This decrease was offset in part by a decrease in tax-exempt income from investment securities and BOLI, and an increase in state taxable income attributable to changes in Illinois tax law effective in 2009. The decrease in income tax expense for the first nine months of 2009 in comparison to the same period in 2008 was attributable to the same factors as for the quarter.

14. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

Credit Extension 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, to reduce its exposure to fluctuations in interest rates, and to conduct lending activities. These instruments principally include commitments to extend credit, standby letters of credit, and commercial letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Statements of Financial Condition.

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

	September 30, 2009	December 31, 2008
Commitments to extend credit:		
Home equity lines	$ 271,338	$ 293,221
Credit card lines to businesses	11,834	12,417
1-4 family real estate construction	52,097	87,050
Commercial real estate	181,163	286,368
All other commitments	701,031	844,226
Letters of credit:		
1-4 family real estate construction	19,850	21,301
Commercial real estate	37,830	35,536
All other	73,234	89,175
Recourse on assets securitized	8,420	9,344

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

The maximum potential future payments guaranteed by the Company under standby letters of credit arrangements are equal to the contractual amount of the commitment. The unamortized fees associated with the Company's standby letters of credit, which are included in other liabilities in the Consolidated Statements of Financial Condition, totaled $740,000 as of September 30, 2009 and $700,000 as of December 31, 2008. The Company will amortize these amounts into income over the commitment period. As of September 30, 2009, standby letters of credit had a remaining weighted-average term of approximately 12.6 months, with remaining actual lives ranging from less than one year to 5.8 years. If a commitment is funded, the Company may seek recourse through the liquidation of the underlying collateral provided including real estate, physical plant and property, marketable securities, or cash.

Pursuant to the securitization of certain 1-4 family mortgage loans in fourth quarter 2004, the Company is obligated by agreement to repurchase at recorded value any non-performing loans, defined as loans past due greater than 90 days. The Company repurchased $336,000 of non-performing loans during the nine months ended September 30, 2009 and $686,000 of non-performing loans during the nine months ended September 30, 2008. During the first nine months of 2009, the Company received $183,000 in satisfaction for one of the loans repurchased in 2008 and charged-off $66,000 related to a loan repurchased in 2008. During the first nine months of 2008, the Company charged-off $28,000 related to two loans repurchased in 2008. The aggregate outstanding balance of securitized loans subject to this recourse obligation was $8.4 million as of September 30, 2009 and $9.3 million as of December 31, 2008. Per its agreement, the Company's recourse obligations will end on November 30, 2011. The carrying value of the Company's recourse liability, which is included in other liabilities in the Consolidated Statements of Financial Condition, totaled approximately $150,000 as of September 30, 2009 and December 31, 2008.

Visa Litigation

In 2007, Visa completed a restructuring and issued shares of Visa common stock to its member banks in contemplation of its initial public offering ("IPO") completed in 2008. As part of that Visa reorganization, the Company received its proportionate share of Class U.S.A. shares. In addition, Visa was named as a defendant in several antitrust lawsuits ("Visa litigation"). The terms of the Visa reorganization stipulated that the Visa member banks (including the Company) have a contingent obligation to indemnify Visa for potential losses arising from the Visa litigation.

In 2008, Visa completed its IPO, redeemed a portion of the Class U.S.A. shares, converted the remaining Class U.S.A. shares to Class B shares, and set aside $4.1 billion of the proceeds of the IPO in an escrow account to fund the expenses of the Visa litigation, as well as the members' proportionate share of any judgments or settlements that may arise out of the Visa litigation. The Class B shares are not transferable (other than to another member bank) until the later of the third anniversary of the IPO closing, or the date in which the Visa litigation is resolved; therefore, the Company's Class B shares were accounted for at their carryover basis of zero. The Company's proportionate share of the Visa escrow account is accounted for as a receivable and is classified in other assets as an offset to the related Visa litigation liability, which is classified in other liabilities in the Consolidated Statements of Financial Condition. Both the Company's receivable and liability balances related to the Visa litigation totaled $552,000 at September 30, 2009 and will decline as amounts are paid out of the escrow account.

In September 2009, the Company sold its 35,605 Class B shares to another financial institution ("the Counterparty") for $1.2 million and recognized a gain of $1.2 million. In addition, the Company executed a derivative agreement with the Counterparty that allows the Counterparty to pass back the impact of changes in the conversion ratio used to convert Class B shares to Class A shares to the Company. Accordingly, the Company continues to bear the risk of a reduction in the conversion ratio due to the outcome of the Visa litigation.

Legal Proceedings

As of September 30, 2009, there were certain 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 these proceedings, if any, would have a material adverse effect on the consolidated financial condition of the Company as of September 30, 2009.

15. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Accounting Policy for 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. 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, it designates the derivative instrument as either a fair value hedge, cash flow hedge, or as a non-hedge derivative instrument. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset or liability attributable to a particular risk, such as interest rate risk, are considered to be fair value hedges. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows to be received or paid related to an asset or liability or other types of forecasted transactions are considered to be cash flow hedges. The Company formally documents all relationships between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking each hedge transaction.

For effective derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income. The unrealized gain or loss is reclassified into earnings in the same period or periods during which the hedged transaction affects earnings (for example, when a hedged item is terminated or redesignated). For all hedge relationships, derivative gains and losses not effective in hedging the change in fair value or expected cash flows of the hedged item are recognized immediately in current earnings during the period of change.

At the hedge’s inception and at least quarterly thereafter, a formal assessment is performed to determine whether changes in the fair values or cash flows of the derivative instruments have been highly effective in offsetting changes in the fair values or cash flows of the hedged item and whether they are expected to be highly effective in the future. 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 to 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(s) that the forecasted hedged transactions impact earnings. If the hedged item is disposed of, or the forecasted transaction is no longer probable, any fair value adjustments are included in the gain or loss from the disposition of the hedged item. In the case of a forecasted transaction that is no longer probable, the gain or loss is included in earnings immediately.

Hedging Strategy

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The Company usually designates derivative instruments used to manage interest rate risk into hedge relationships with the specific assets, liabilities, or cash flows being hedged. Some derivative instruments used for interest rate risk management may not be designated as part of a hedge relationship if the derivative instrument has been moved out of a hedge relationship because the hedge was deemed not effective or if operational or cost constraints make it prohibitive to apply hedge accounting.

Management uses derivative instruments to protect against the risk of interest rate movements on the value of certain assets and liabilities and on future cash flows. The derivative instruments the Company primarily uses are interest rate swaps with indices that relate to the pricing of specific assets and liabilities. The nature and volume of the derivative instruments used to manage interest rate risk depend on the level and type of assets and liabilities held and the risk management strategies for the current and anticipated interest rate environment.

As with any financial instrument, derivative instruments have inherent risks, primarily market and credit risk. Market risk is the adverse effect a change in interest rates, currency, equity prices, or implied volatility has on the value of a financial instrument. Market risk associated with changes in interest rates is managed by establishing and monitoring limits as to the degree of risk that may be undertaken as part of the Company’s overall market risk monitoring process, which includes the use of net interest income and economic value of equity simulation methodologies. This process is carried out by the Company’s Asset Liability Management Committee. See further discussion of this process in Item 3, “Quantitative and Qualitative Disclosures About Market Risk,” of this Form 10-Q.

Fair Value Hedges - During 2008 and 2009, the Company hedged the fair value of fixed rate commercial real estate loans through the use of pay fixed, receive variable interest rate swaps. In 2008, the Company also hedged the fair value of fixed rate, junior subordinated debentures through the use of pay variable, receive fixed interest rate swaps.

Derivative contracts are valued using observable market prices, if available, or cash flow projection models acquired from third parties. Pricing models used for valuing derivative instruments are regularly validated by testing through comparison with other third parties. The valuations and expected lives presented in the following table are based on yield curves, forward yield curves, and implied volatilities that were observable in the cash and derivatives markets on September 30, 2009 and December 31, 2008.

Other Derivative Activities - The Company had no other derivative instruments as of September 30, 2009 or December 31, 2008. The Company does not enter into derivative transactions for purely speculative purposes.

Interest Rate Derivatives Portfolio

(Dollar amounts in thousands)

	September 30, 2009	December 31, 2008
Fair Value Hedges		
Related to fixed rate commercial loans		
Notional amount outstanding	$ 19,252	$ 19,982
Weighted-average interest rate received	2.16%	3.16%
Weighted-average interest rate paid	6.39%	6.39%
Weighted-average maturity (in years)	8.01	8.76
Derivative liability fair value	$ (1,655)	$ (2,628)

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	Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Gains (losses) on hedged items recognized in noninterest income:				
Gains (losses) on swaps	$ (320)	$ (96)	$ 973	$ (82)
(Losses) gains on loans	317	93	(981)	87
Net hedge ineffectiveness (1)	$ (3)	$ (3)	$ (8)	$ 5
Gains recognized in net interest income (2)	$ 40	$ 40	$ 120	$ 85

(1)Included in other noninterest income in the Consolidated Statements of Income.
(2)The gain represents the fair value adjustments on discontinued fair value hedges in connection with our subordinated fixed rate debt that were being amortized through earnings over the remaining life of the hedged item (debt). In addition to these amounts, interest accruals on fair value hedges are also reported in net interest income.

Credit Risk

Credit risk occurs when the counterparty to a derivative contract with an unrealized gain fails to perform according to the terms of the agreement. Credit risk is managed by limiting the aggregate amount of net unrealized gains in agreements outstanding, monitoring the size and the maturity structure of the derivatives, applying uniform credit standards maintained for all activities with credit risk, and collateralizing gains. The Company maintains a policy limiting credit exposure to any one counterparty to not more than 2.5% of stockholders' equity. In addition, the Company has established bilateral collateral agreements with its major derivative dealer counterparties that provide for exchanges of marketable securities or cash to collateralize either party's net gains above an agreed-upon minimum threshold. On September 30, 2009, these collateral agreements covered 100% of the fair value of the Company's interest rate swaps outstanding. Net losses with counterparties must be collateralized with either cash or U.S. Government and U.S. Government-sponsored agency securities. The Company pledged cash of $1.6 million as of September 30, 2009 and $2.7 million as of December 31, 2008 to collateralize net losses with counterparties. No other collateral was required to be pledged as of September 30, 2009 or December 31, 2008.

As of September 30, 2009 and December 31, 2008, all of the Company's derivative instruments contained provisions that require the Company's debt to remain above a certain credit rating by each of the major credit rating agencies. If the Company's debt were to fall below that credit rating, 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.

16. FAIR VALUE

The Company measures, monitors, and discloses certain of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis to account for trading securities, securities available-for-sale, mortgage servicing rights, derivative assets, and derivative liabilities. In addition, fair value is used on a non-recurring basis to apply lower-of-cost-or-market accounting to other real estate owned ("OREO"); evaluate assets or liabilities for impairment, including collateral-dependent impaired loans, goodwill, and other intangibles; and for disclosure purposes. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company measures fair value in accordance with accounting guidance that was effective for the Company on January 1, 2008 for financial assets and liabilities and on January 1, 2009 for non-financial assets and liabilities. Depending upon the nature of the asset or liability, the Company uses various valuation techniques and input assumptions when estimating fair value.

The Company maximizes the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The new fair value guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value into three broad levels based on the reliability of the input assumptions. The hierarchy gives the highest priority to level 1 measurements and the lowest priority to level 3 measurements. The three levels of the fair value hierarchy are defined as follows:

- Level 1 – Unadjusted quoted prices for identical assets or liabilities traded in active markets.

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

The categorization of where an asset or liability falls within the hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value

The following table provides the hierarchy level and fair value for each major type of assets and liabilities measured at fair value as of September 30, 2009.

Fair Value Measurements
(Dollar amounts in thousands)

	September 30, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets and liabilities measured at fair value on a recurring basis				
Assets:				
Trading securities	$ 13,231	$ -	$ -	$ 13,231
Securities available-for-sale:				
U.S. Agency securities	-	757	-	757
Collateralized mortgage obligations (1)	-	331,207	-	331,207
Other mortgage-backed securities (1)	-	228,569	15,606	244,175
State and municipal securities	-	708,314	-	708,314
Collateralized debt obligations	-	-	15,543	15,543
Corporate debt securities	-	34,393	-	34,393
Equity securities	9,971	5,309	-	15,280

Total securities available-for-sale	9,971	1,308,549	31,149	1,349,669
Mortgage servicing rights (2)	-	-	1,099	1,099
Total assets	$ 23,202	$ 1,308,549	$ 32,248	$ 1,363,999
Liabilities:				
Derivative liabilities (2)	$ -	$ 1,655	$ -	$ 1,655
Assets measured at fair value on a non-recurring basis				
Collateral-dependent impaired loans (3)	$ -	$ -	$ 76,648	$ 76,648
Other real estate owned (4)	-	-	57,945	57,945
Total assets	$ -	$ -	$ 134,593	$ 134,593

(1) These securities are backed by residential mortgages.
(2) Mortgage servicing rights are included in other assets, and derivative liabilities are included in other liabilities in the Consolidated Statements of Financial Condition.
(3) Represents the carrying value of loans for which adjustments are based on the appraised or market-quoted value of the collateral.
(4) Represents the estimated fair value, net of selling costs, based on appraised value.

Valuation Methodology

The following describes the valuation methodologies used by the Company for assets and liabilities measured at fair value, including the general classification of the assets and liabilities pursuant to the valuation hierarchy.

Trading Securities – Trading securities represent diversified investment securities held in a grantor trust under deferred compensation arrangements in which plan participants may direct amounts earned to be invested in securities other than Company common stock. Trading securities are reported at fair value, with unrealized gains and losses included in noninterest income. The fair value of trading securities is based on quoted market prices in active exchange markets and, therefore, is classified in level 1 of the valuation hierarchy.

Securities Available-for-Sale – Substantially all available-for-sale securities are fixed income instruments that are not quoted on an exchange, but may be traded in active markets. The fair value of these securities is based on quoted market prices obtained from external pricing services or dealer market participants where trading in an active market exists. In obtaining such data from external pricing services, the Company has evaluated the methodologies used to develop the fair values in order to determine whether such valuations are representative of an exit price in the Company's principal markets. The Company's principal markets for its securities portfolio are the secondary institutional markets, with an exit price that is based on bid level pricing in those markets. Examples of such securities measured at fair value are U.S. Treasury and Agency securities, municipal bonds, collateralized mortgage obligations, and other mortgage-backed securities. These securities are generally classified in level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency for inputs to the valuation, securities are classified in level 3 of the valuation hierarchy. For instance, in the valuation of certain collateralized mortgage and debt obligations and high-yield debt securities, the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates.

Due to the illiquidity in the secondary market for the Company's seven trust-preferred CDOs, especially since the disruption in the credit markets, the Company determined that dealer quotes did not reflect the best estimate of fair value. Therefore, the Company, with the assistance of a structured credit valuation firm, estimated the value of these securities using discounted cash flows and has classified these investments in level 3 of the valuation hierarchy.

The valuation for each of the seven CDOs relies on independently verifiable historical financial data. The valuation firm performs a credit analysis of each of the entities comprising the collateral underlying each CDO in order to estimate the likelihood of default by any of these entities on their trust-preferred obligation. Cash flows are modeled based upon the contractual terms of the CDO, discounted to their present values, and used to derive the estimated fair value of the individual CDO, as well as any credit loss or impairment.

The component of loss for any CDO that is deemed to be an other-than-temporary impairment, if any, is determined by comparing the current amortized cost to the discounted cash flows for each CDO using each CDO's specific contractual yield. The contractual yields for these CDOs range from the London Interbank Offered Rate ("LIBOR") plus 125 to 160 basis points.

The fair value for each CDO is determined by discounting the estimated cash flows by a rate ranging from LIBOR plus 1,000 to 1,500 basis points, depending upon the specific CDO. The discount rate used is intended to reflect the higher risk inherent in these securities given the current market. Currently, five of these CDOs are deferring interest payments. The Company has ceased accruing interest on these securities.

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

	Quarter Ended September 30, 2009			Nine Months Ended September 30, 2009		
	Other Mortgage-Backed Securities	Collateralized Debt Obligations	Total	Other Mortgage-Backed Securities	Collateralized Debt Obligations	Total
Balance at beginning of period	$ 16,222	$ 20,315	$ 36,537	$ 16,632	$ 42,086	$ 58,718
Total income (losses):						
Included in earnings (1)	-	(11,500)	(11,500)	-	(18,571)	(18,571)
Included in other comprehensive income (loss)	250	6,727	6,977	566	(7,950)	(7,384)
Purchases, sales, issuances, and settlements	(866)	1	(865)	(1,592)	(22)	(1,614)
Balance at end of period	$ 15,606	$ 15,543	$ 31,149	$ 15,606	$ 15,543	$ 31,149
Change in unrealized losses recognized in earnings relating to securities still held at end of period	$ -	$ (11,500)	$ (11,500)	$ -	$ (18,571)	$ (18,571)

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

In the table above, the net losses recognized in earnings represent non-cash impairment charges recognized on certain CDOs that were deemed to be other-than-temporarily impaired.

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

A rollforward of the carrying value of mortgage servicing rights was provided in Note 5, “Securitizations and Mortgage Servicing Rights.”

Derivative Assets and Derivative Liabilities – The interest rate swaps entered into by the Company are executed in the dealer market and priced based on market quotes obtained from the counterparty that transacted the derivative contract. The market quotes were developed by the counterparty using market observable inputs, which primarily include LIBOR for swaps. As the fair value estimates for interest rate swaps are primarily based on LIBOR, which is a market observable input, derivatives are classified in level 2 of the valuation hierarchy. For its derivative assets and liabilities, the Company also considers non-performance risk, including the likelihood of default by itself and its counterparties, when evaluating whether the market quotes from the counterparty are representative of an exit price. The Company has a policy of executing derivative transactions only with counterparties above a certain credit rating. Credit risk is also mitigated through the pledging of collateral when certain thresholds are reached. The likelihood of the Company’s default is considered remote. For this reason, non-performance risk is considered extremely low, and accordingly, any such credit risk adjustments to the Company’s derivative assets and liabilities would be immaterial.

Collateral-Dependent Impaired Loans – The carrying value of impaired loans is disclosed in Note 6, “Reserve for Loan Losses and Impaired Loans.” The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Accordingly, fair value estimates, including those obtained from real estate brokers or other third-party consultants, for collateral-dependent impaired loans are classified in level 3 of the valuation hierarchy.

During the first nine months of 2009, collateral-dependent impaired loans with a carrying value of $182.4 million, less transfers to OREO of $47.5 million, were written down to their fair value of $76.6 million, resulting in a charge to the reserve for loan losses of $58.3 million, which was included in earnings.

Other Real Estate Owned – OREO includes properties acquired in partial or total satisfaction of certain loans. Properties are recorded at the lower of the recorded investment in the loans for which the properties previously served as collateral or the fair value, which represents the estimated sales price of the properties on the date acquired less estimated selling costs. Fair value assumes an orderly disposition except where a specific disposition strategy is expected. Any write-downs in the carrying value of a property at the time of acquisition are charged against the reserve for loan losses. Management periodically reviews the carrying value of OREO properties. Any write-downs of the properties subsequent to acquisition, as well as gains or losses on disposition and income or expense from the operations of OREO, are recognized in operating results in the period they occur. Fair value is generally based on third party appraisals and internal estimates and is therefore considered a Level 3 valuation.

During the first nine months of 2009, OREO properties with a carrying value of $24.7 million were written down to their fair value of $19.6 million, resulting in a charge to earnings of $3.4 million and a charge to the reserve for loan losses of $1.7 million.

Goodwill and Other Intangible Assets – Goodwill represents the excess of purchase price over the fair value of net assets acquired using the purchase method of accounting. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability.

Goodwill and other intangible assets are subject to impairment testing, which requires a significant degree of management judgment. Goodwill is tested at least annually for impairment or more often if events or circumstances between annual tests indicate that there may be impairment. The testing is performed using the market capitalization method and, if necessary, by comparing the carrying value of goodwill with the anticipated future cash flows.

Identified intangible assets that have a finite useful life are amortized over that life in a manner that reflects the estimated decline in the economic value of the identified intangible asset. Identified intangible assets that have a finite useful life are reviewed annually to determine whether there have been any events or circumstances to indicate that the recorded amount is not recoverable from projected undiscounted net operating cash flows.

The annual test of goodwill and identified intangible assets performed as of October 1, 2008 did not indicate that an impairment charge was required. Additional goodwill impairment testing was conducted in first quarter 2009, when general economic conditions deteriorated significantly and the Company experienced a substantial decline in market capitalization. The additional testing did not indicate that an impairment charge was required. The Company is in the process of completing its annual test of goodwill and identified intangible assets as of October 1, 2009, and does not believe that impairment exists.

If the testing had resulted in impairment, the Company would have classified goodwill and other intangible assets subjected to nonrecurring fair value adjustments as Level 3. Additional information regarding goodwill, other intangible assets, and impairment policies can be found in Note 7 of "Notes to Consolidated Financial Statements" in Item 8 of the Company's 2008 10-K.

Fair Value Disclosure of Other Assets and Liabilities

U.S. GAAP requires disclosure of the estimated fair values of certain financial instruments, both assets and liabilities, on and off-balance sheet, for which it is practical to estimate the fair value. Because the estimated fair values provided herein exclude disclosure of the fair value of certain other financial instruments and all non-financial instruments, any aggregation of the estimated fair value amounts presented would not represent the underlying value of the Company. Examples of non-financial instruments having significant value include the future earnings potential of significant customer relationships and the value of the Company's trust division operations and other fee-generating businesses. In addition, other significant assets including property, plant, and equipment and goodwill are not considered financial instruments and, therefore, have not been valued.

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

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

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

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

Loans - The fair value of loans was estimated using present value techniques by discounting the future cash flows of the remaining maturities of the loans, and, when applicable, prepayment assumptions were considered based on historical experience and current economic and lending conditions. The discount rate was based on the LIBOR yield curve, with rate adjustments for liquidity and credit risk. The primary impact of credit risk on the present value of the loan portfolio, however, was accommodated through the use of the reserve for loan losses, which is believed to represent the current fair value of probable incurred losses for purposes of the fair value calculation.

Deposit Liabilities - The fair values disclosed for demand deposits, savings deposits, NOW accounts, and money market deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair value for fixed-rate time deposits was estimated using present value techniques by discounting the future cash flows based on the LIBOR yield curve, plus or minus the spread associated with current pricing.
Borrowed Funds - The fair value of repurchase agreements and FHLB advances is estimated by discounting the agreements based on maturities using the rates currently offered for repurchase agreements of similar remaining maturities. The carrying amounts of federal funds purchased, federal term auction facilities, and other borrowed funds approximate their fair value due to their short-term nature.

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

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

Commitments - Given the limited interest rate exposure posed by the commitments outstanding at year-end due to their general variable nature, combined with the general short-term nature of the commitment periods entered into, termination clauses provided in the agreements, and the market rate of fees charged, the Company has estimated the fair value of commitments outstanding to be immaterial.

Financial Instruments
(Dollar amounts in thousands)

	September 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$ 115,905	$ 115,905	$ 106,082	$ 106,082
Funds sold and other short-term investments	81,693	81,692	8,226	8,226
Trading account securities	13,231	13,231	12,358	12,358
Securities available-for-sale	1,349,669	1,349,669	2,216,186	2,216,186
Securities held-to-maturity	83,860	84,230	84,306	84,592
Loans, net of reserve for loan losses	5,171,799	5,151,895	5,266,194	5,231,925
Accrued interest receivable	34,939	34,939	43,247	43,247
Investment in bank owned life insurance	197,681	197,681	198,533	198,533
Derivative assets	-	-	-	-
Financial Liabilities:				
Deposits	$5,749,153	$5,749,972	$5,585,754	$5,583,943
Borrowed funds	716,299	717,182	1,698,334	1,703,940
Subordinated debt	157,717	133,330	232,409	171,307
Accrued interest payable	8,620	8,620	10,550	10,550

Derivative liabilities	1,655	1,655	2,628	2,628
Standby letters of credit	740	740	700	700

17. SUBSEQUENT EVENTS

We have evaluated subsequent events through the date our financial statements were issued, or November 6, 2009.

On October 23, 2009, First Midwest Bank, a wholly-owned banking subsidiary of the Company, acquired certain deposits and loans of First DuPage Bank, a single branch located in the Chicago suburb of Westmont, IL with approximately $250 million in assets ("First DuPage"). The acquisition of First DuPage was facilitated by the FDIC, and we entered into a loss share agreement with the FDIC to mitigate the risk of losses from problem loans. First DuPage was closed by the Illinois Department of Financial & Professional Regulations. Subsequently, the FDIC was named Receiver, and all loans and deposit accounts, excluding certain brokered deposits, were transferred to First Midwest Bank.

Results of operations arising from this transaction will be included in the Company's Consolidated Statement of Income beginning with fourth quarter 2009.

We do not believe any additional subsequent events have occurred that would require further disclosure or adjustment to our financial statements.

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

The discussion presented below provides an analysis of our results of operations and financial condition for the quarters ended September 30, 2009 and 2008. When we use the terms "First Midwest," the "Company," "we," "us," and "ou we mean First Midwest Bancorp, Inc., a Delaware Corporation, and its consolidated subsidiaries. When we use the term "Bank," we are referring to our wholly-owned banking subsidiary, First Midwest Bank. Management's discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes presented elsewhere in this report, as well as in our 2008 Annual Report on Form 10-K ("2008 10-K"). Results of operations for the quarter and nine months ended September 30, 2009 are not necessarily indicative of results to be expected for the year ending December 31, 2009. Unless otherwise stated, all earnings per common share data included in this section and throughout the remainder of this discussion are presented on a diluted basis.

PERFORMANCE OVERVIEW

General Overview

Our banking network is located primarily in suburban metropolitan Chicago and provides a full range of business and retail banking and trust and advisory services through 93 banking branches, one operational facility, and one dedicated lending office. The primary sources of our revenue are net interest income and fees from financial services provided to customers. Business volumes tend to be influenced by overall economic factors including market interest rates, business spending, consumer confidence, and competitive conditions within the marketplace.

Third Quarter and Nine-Month Periods Ended September 30, 2009 and 2008

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

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Operating Results						
Interest income	$ 82,762	$ 101,486	(18.4)	$ 259,381	$ 311,274	(16.7)
Interest expense	21,781	38,728	(43.8)	73,790	129,690	(43.1)
Net interest income	60,981	62,758	(2.8)	185,591	181,584	2.2
Fee-based revenues	21,846	24,767	(11.8)	63,207	72,058	(12.3)
Other noninterest income	2,228	673	231.1	6,175	5,474	12.8
Noninterest expense	(56,640)	(48,436)	16.9	(164,267)	(147,724)	11.2
Pre-tax earnings, excluding provision for loan losses and net market-related gains (2)	28,415	39,762	(28.5)	90,706	111,392	(18.6)
Provision for loan losses	(38,000)	(13,029)	191.7	(122,672)	(27,869)	340.2
Gains on securities sales, net	4,525	48	9,327.1	26,453	8,641	206.1
Securities impairment losses	(11,500)	(1,794)	541.0	(18,571)	(10,037)	85.0
Gains on early extinguishment of debt	13,991	-	-	13,991	-	-

(Loss) income before income tax benefit (expense)		(2,569)		24,987	(110.3)		(10,093)		82,127	(112.3)
Income tax benefit (expense)		5,920		(796)	(843.7)		21,834		(5,901)	(470.0)
Net income		3,351		24,191	(86.1)		11,741		76,226	(84.6)
Preferred dividends		(2,567)		-	-		(7,696)		-	-
Net income applicable to non-vested restricted shares		(11)		(42)	(73.8)		(54)		(176)	(69.3)
Net income applicable to common shares	$	773	$	24,149	(96.8)	$	3,991	$	76,050	(94.8)
Diluted earnings per common share	$	0.02	$	0.50	(96.0)	$	0.08	$	1.57	(94.9)

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	Quarters Ended September 30, 2009	Quarters Ended September 30, 2008	% Change	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	% Change
Performance Ratios (1)						
Return on average common equity	0.43%	13.07%		0.75%	13.77%	
Return on average assets	0.17%	1.16%		0.19%	1.24%	
Net interest margin – tax equivalent	3.66%	3.63%		3.62%	3.58%	
Efficiency ratio	59.13%	50.30%		57.64%	51.97%	

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

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

	September 30, 2009	December 31, 2008	September 30, 2008	September 30, 2009 Change From December 31, 2008	September 30, 2009 Change From September 30, 2008
Balance Sheet Highlights					
Total assets	$ 7,678,434	$ 8,528,341	$ 8,246,655	$ (849,907)	$ (568,221)
Total loans	5,306,068	5,360,063	5,223,582	(53,995)	82,486
Total deposits	5,749,153	5,585,754	5,658,284	163,399	90,869
Transactional deposits	3,833,267	3,457,954	3,462,867	375,313	370,400
Loans to deposits ratio	92.3%	96.0%	92.3%		
Transactional deposits to total deposits	66.7%	61.9%	61.2%		

	September 30, 2009	June 30, 2009	December 31, 2008
Asset Quality Highlights			
Non-accrual loans plus 90 days or more past due loans	$ 262,765	$ 263,324	$ 164,767
Restructured loans (still accruing interest)	26,718	18,877	7,344
30-89 days past due loans	44,346	38,128	116,206
Reserve for loan losses as a percent of loans	2.53%	2.39%	1.75%

Net income was $3.4 million, before adjustment for preferred dividends and non-vested restricted shares, with $773,000, or $0.02 per share, available to common shareholders after such adjustments. This compares to net income available to common shareholders of $24.1 million, or $0.50 per share, for third quarter 2008, with the difference largely due to higher provision for loan losses, FDIC insurance premiums, and loan remediation expenses, partially offset by an increase in net securities and debt extinguishment gains.

Pre-tax earnings, excluding the provision for loan losses, net securities losses, and debt extinguishment gains, was $28.4 million for third quarter 2009, compared to $39.8 million for third quarter 2008, with the decline substantially due to increases in FDIC insurance premiums and expenses to remediate loans and maintain other real estate owned ("OREO").

Despite the continuing economic challenges during the quarter, we again generated solid core performance, as evidenced by annualized commercial and industrial loan growth of 7.5%, year over year growth in average core transactional deposits of 7.6%, and improved net interest margin of 13 basis points. Concurrently, we increased our loan loss reserve and continued to proactively remediate problem credits.

During the quarter, we also notably improved the quality of our capital composition by increasing our level of tangible common equity. We did so through the successful exchange of $68.8 million of subordinated and trust preferred debt for common stock at a discount from the par value of the debt securities, with a resulting pre-tax gain of $14.0 million.

During third quarter 2009, we delevered our balance sheet by using proceeds from securities sales and maturities to reduce our level of borrowed funds and time deposits while increasing our net interest margin.

Outstanding loans totaled $5.31 billion as of September 30, 2009, an annualized decrease of 1.3% from December 31, 2008. During the nine-month period ended September 30, 2009, we extended approximately $90 million in new credit, net of paydowns, which was more than offset by net charge-offs, conversion of loans to OREO, and the securitization of $25.7 million of real estate 1-4 family loans, which are now included in the securities available-for-sale portfolio.

Average core transactional deposits for third quarter 2009 were $3.86 billion, an increase of $271.5 million, or 7.6% from third quarter 2008. The increase from prior year was due primarily to growth in money market account balances as a result of a successful promotional campaign.

Tax-equivalent net interest margin was 3.66% for third quarter 2009, an increase from 3.53% for second quarter 2009 and 3.63% for third quarter 2008. For the nine months ended September 30, 2009, net interest margin increased 4 basis points to 3.62% from 3.58% for the same period in 2008.

Fee-based revenues for the quarter and nine-month periods ended September 30, 2009 decreased from the same periods in 2008, and reflected the impact of lower transaction volumes caused by reduced consumer spending.

Noninterest expense increased $8.2 million for third quarter 2009 compared to third quarter 2008 and $16.5 million for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The increases from 2008 to 2009 are due to higher loan remediation costs, including costs associated with maintaining foreclosed real estate, and higher FDIC insurance premiums.

During third quarter 2009, we increased our reserve for loan losses $6.7 million from June 30, 2009 and $40.4 million from December 31, 2008. The reserve for loan losses represented 2.53% of total loans outstanding at September 30, 2009, compared to 2.39% at June 30, 2009 and 1.75% at December 31, 2008.

Net securities losses were $7.0 million for third quarter 2009. Gains totaling $4.5 million on sales of collateralized mortgage-backed, municipal, and other securities were more than offset by an other-than-temporary impairment charge of $11.5 million associated with our portfolio of trust-preferred collateralized debt obligations.

On October 23, 2009, the Bank acquired certain deposits and loans of First DuPage Bank, a single branch located in the Chicago suburb of Westmont, IL with approximately $250 million in assets (“First DuPage”). The acquisition of First DuPage was facilitated by the FDIC, and we entered into a loss share agreement with the FDIC to mitigate the risk of losses from problem loans. The acquisition of First DuPage enables us to expand into DuPage County and fits within our strategic growth plans.

EARNINGS PERFORMANCE

Net Interest Income

Net interest income equals the difference between interest income plus fees earned on interest-earning assets and interest expense incurred on interest-bearing liabilities. The level of interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income. Net interest margin represents net interest income as a percentage of total average interest-earning assets. The accounting policies underlying the recognition of interest income on loans, securities, and other interest-earning assets are included in the “Notes to Consolidated Financial Statements” contained in our 2008 10-K.

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

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Table 2
Effect of Tax-Equivalent Adjustment
(Dollar amounts in thousands)

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Net interest income (GAAP)	$ 60,981	$ 62,758	(2.8)	$185,591	$ 181,584	2.2
Tax-equivalent adjustment	4,691	5,572	(15.8)	15,210	16,729	(9.1)
Tax-equivalent net interest income	$ 65,672	$ 68,330	(3.9)	$200,801	$198,313	1.3

Table 3 summarizes changes in our average interest-earning assets and interest-bearing liabilities as well as interest income and interest expense related to each category of assets and funding sources and the average interest rates earned and paid on each. The table also shows the trend in net interest margin on a quarterly basis for 2009 and 2008, including the tax-equivalent yields on interest-earning assets and rates paid on interest-bearing liabilities. Table 3 also details increases in income and expense for each of the major categories of interest-earning assets and analyzes the extent to which such variances are attributable to volume and rate changes. Interest income and yields are presented on a tax-equivalent basis assuming a federal income tax rate of 35%, which includes the tax-equivalent adjustment as presented in Table 2 above.

Tax-equivalent net interest margin was 3.66% for third quarter 2009, an increase from 3.53% for second quarter 2009 and 3.63% for third quarter 2008. The yield on interest-earning assets for third quarter 2009 improved 2 basis points compared to second quarter 2009, while our cost of funds declined 13 basis points compared to second quarter 2009.

For the nine months ended September 30, 2009, tax-equivalent net interest margin was 3.62%, up 4 basis points from 3.58% for first nine months of 2008. As of September 30, 2009, our loan-to-deposit ratio is 92.3%, with two-thirds of our customer deposits consisting of demand, NOW, money market, and savings transactional accounts.

Third quarter and year-to-date 2009 net interest margins reflect our strong core deposit base and our ability to effectively manage our cost of funds. During third quarter 2009, we delevered our balance sheet by using proceeds from securities sales and maturities to reduce our level of borrowed funds and time deposits. Interest rates began declining in September 2007 and continued through fourth quarter 2008, resulting in a reduction in interest rates for both fixed and floating interest rates on our loan portfolio in 2009. The decline in interest-earning asset yields was offset by a shift in funding toward less expensive transactional deposits.

As shown in Table 3, third quarter 2009 tax-equivalent interest income declined $19.6 million compared to third quarter 2008. The decrease in interest-earning assets reduced interest income by $6.3 million, and a decline in the average rate earned on interest-earning assets reduced interest income by $13.3 million. The corresponding decline in wholesale funding and drop in interest rates reduced interest expense by $16.9 million

As shown in Table 4, tax-equivalent interest income for the nine months ended September 30, 2009 declined $53.4 million compared to the same period in 2008. A decline in the average rate earned on interest-earning assets reduced interest income by $55.4 million, while an increase in interest-earning assets increased interest income by $2.0 million. Interest expense for the first nine months of 2009 declined $55.9 million compared to the nine months ended September 30, 2008. The decrease in interest-bearing liabilities as a result of delevering our balance sheet reduced interest expense by $5.3 million, while the decrease in the average rate paid on interest-bearing liabilities reduced interest expense by $50.6 million.

We continue to use multiple interest rate scenarios to rigorously assess the direction and magnitude of changes in interest rates and their impact on net interest income. A description and analysis of our market risk and interest rate sensitivity profile and management policies is included in Item 3, “Quantitative and Qualitative Disclosures About Market Risk,” of this Form 10-Q.

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

	Quarters Ended September 30, 2009			2008			Attribution of Change in Net Interest Income (1)		
	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)	Volume	Yield/ Rate	Total
Assets:									
Federal funds sold and other short-term investments	$ 198,365	$ 106	0.21	$ 7,430	$ 37	1.98	$ 71	$ (2)	$ 69
Trading account securities	12,302	33	1.07	17,438	51	1.17	(14)	(4)	(18)
Securities available-for-sale (2)	1,433,424	19,135	5.34	2,124,464	29,862	5.62	(9,290)	(1,437)	(10,727)
Securities held-to-maturity	84,866	1,463	6.90	89,860	1,525	6.79	(86)	24	(62)
Federal Home Loan Bank and Federal Reserve Bank stock	54,768	310	2.26	54,767	329	2.40	-	(19)	(19)
Loans (2):									
Commercial and industrial	1,486,582	18,472	4.93	1,469,710	21,395	5.79	249	(3,172)	(2,923)
Agricultural	121,040	1,344	4.41	175,491	2,106	4.77	(614)	(148)	(762)
Commercial real estate	3,047,847	38,159	4.97	2,806,394	40,952	5.81	4,291	(7,084)	(2,793)
Consumer	532,642	6,221	4.63	544,035	7,603	5.56	(156)	(1,226)	(1,382)
Real estate - 1-4 family	158,658	2,210	5.53	209,558	3,198	6.07	(727)	(261)	(988)
Total loans	5,346,769	66,406	4.93	5,205,188	75,254	5.75	3,043	(11,891)	(8,848)
Total interest-earning assets (2)	7,130,494	87,453	4.88	7,499,147	107,058	5.69	(6,276)	(13,329)	(19,605)
Cash and due from banks	121,378			142,576					
Reserve for loan losses	(140,065)			(66,455)					
Other assets	765,248			700,550					
Total assets	$ 7,877,055			$ 8,275,818					
Liabilities and Stockholders’ Equity:									
Savings deposits	$ 749,995	726	0.38	$ 784,646	1,574	0.80	(67)	(781)	(848)
NOW accounts	1,062,708	729	0.27	983,364	2,646	1.07	232	(2,149)	(1,917)
Money market deposits	995,132	2,457	0.98	770,967	2,964	1.53	2,207	(2,714)	(507)
Time deposits	1,938,445	11,412	2.34	2,170,030	18,390	3.37	(1,808)	(5,170)	(6,978)
Borrowed funds	870,397	2,768	1.26	1,476,403	9,451	2.55	(3,002)	(3,681)	(6,683)
Subordinated debt	226,693	3,689	6.46	232,458	3,703	6.34	(107)	93	(14)
Total interest-bearing liabilities	5,843,370	21,781	1.48	6,417,868	38,728	2.40	(2,545)	(14,402)	(16,947)
Demand deposits	1,056,188			1,053,530					
Other liabilities	72,150			69,398					
Stockholders’ equity - common	712,347			735,022					

Stockholders' equity - preferred	193,000			-					
Total liabilities and stockholders' equity	$ 7,877,055			$ 8,275,818					
Net interest income/margin (2)		$ 65,672	3.66		$ 68,330	3.63	$ (3,731)	$ 1,073	$ (2,658)

Quarterly Net Interest Margin Trend

	2009			2008			
	3rd	2nd	1st	4th	3rd	2nd	1st
Yield on interest-earning assets	4.88%	4.86%	5.12%	5.43%	5.69%	5.81%	6.29%
Rates paid on interest-bearing liabilities	1.48%	1.61%	1.73%	2.03%	2.40%	2.61%	3.23%
Net interest margin (2)	3.66%	3.53%	3.67%	3.71%	3.63%	3.58%	3.53%

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

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

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Table 4
Net Interest Income and Margin Analysis
(Dollar amounts in thousands)

	Nine Months Ended September 30, 2009			Nine Months Ended September 30, 2008			Attribution of Change in Net Interest Income (1)		
	Average Balance	Interest	Yield/ Rate (%)	Average Balance	Interest	Yield/ Rate (%)	Volume	Yield/ Rate	Total
Assets:									
Federal funds sold and other short-term investments	$ 107,913	$ 175	0.22	$ 9,813	$ 161	2.19	$ 15	$ (1)	$ 14
Trading account securities	11,899	108	1.21	17,800	167	1.25	(54)	(5)	(59)
Securities available-for-sale (2)	1,778,772	72,453	5.43	2,106,475	89,850	5.69	(13,490)	(3,907)	(17,397)
Securities held-to-maturity	84,813	4,357	6.85	94,646	4,782	6.74	(507)	82	(425)
Federal Home Loan Bank and Federal Reserve Bank stock	54,768	907	2.21	54,767	999	2.43	-	(92)	(92)
Loans (2):									
Commercial and industrial	1,484,758	52,977	4.77	1,416,879	64,747	6.10	3,292	(15,062)	(11,770)
Agricultural	132,073	4,004	4.05	187,106	7,196	5.14	(1,856)	(1,336)	(3,192)
Commercial real estate	3,031,122	112,783	4.97	2,736,878	125,433	6.12	16,868	(29,518)	(12,650)
Consumer	539,859	19,109	4.73	548,298	24,553	5.98	(373)	(5,071)	(5,444)
Real estate - 1-4 family	176,093	7,718	5.86	218,377	10,115	6.19	(1,876)	(521)	(2,397)
Total loans	5,363,905	196,591	4.90	5,107,538	232,044	6.07	16,055	(51,508)	(35,453)
Total interest-earning assets (2)	7,402,070	274,591	4.96	7,391,039	328,003	5.92	2,019	(55,431)	(53,412)
Cash and due from banks	118,699			136,682					
Reserve for loan losses	(120,764)			(64,598)					
Other assets	765,182			715,279					
Total assets	$ 8,165,187			$ 8,178,402					
Liabilities and Stockholders' Equity:									
Savings deposits	$ 753,580	2,387	0.42	$ 807,452	6,000	0.99	(376)	(3,237)	(3,613)
NOW accounts	994,895	2,551	0.34	939,387	7,923	1.13	498	(5,870)	(5,372)
	889,852	7,188	1.08	803,858	10,752	1.79	1,318	(4,882)	(3,564)

Money market deposits									
Time deposits	1,998,673	39,277	2.63	2,168,944	63,145	3.89	(4,644)	(19,224)	(23,868)
Borrowed funds	1,272,738	11,293	1.19	1,372,048	30,776	3.00	(2,084)	(17,399)	(19,483)
Subordinated debt	230,460	11,094	6.44	231,805	11,094	6.39	-	-	-
Total interest-bearing liabilities	6,140,198	73,790	1.61	6,323,494	129,690	2.74	(5,288)	(50,612)	(55,900)
Demand deposits	1,043,047			1,044,098					
Other liabilities	73,114			73,283					
Stockholders' equity - common	715,828			737,527					
Stockholders' equity - preferred	193,000			-					
Total liabilities and stockholders' equity	$ 8,165,187			$ 8,178,402					
Net interest income/margin (2)		$ 200,801	3.62		$ 198,313	3.58	$ 7,307	$ (4,819)	$ 2,488

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

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

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Noninterest Income

Table 5
Noninterest Income Analysis
(Dollar amounts in thousands)

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Service charges on deposit accounts	$ 10,046	$ 11,974	(16.1)	$ 28,777	$ 33,781	(14.8)
Trust and investment advisory fees	3,555	3,818	(6.9)	10,355	11,710	(11.6)
Other service charges, commissions, and fees	4,222	4,834	(12.7)	12,249	14,292	(14.3)
Card-based fees	4,023	4,141	(2.8)	11,826	12,275	(3.7)
Subtotal fee-based revenues	21,846	24,767	(11.8)	63,207	72,058	(12.3)
Bank owned life insurance (“BOLI”) income	282	1,882	(85.0)	1,982	6,489	(69.5)
Other income	587	622	(5.6)	2,096	2,196	(4.6)
Subtotal operating revenues	22,715	27,271	(16.7)	67,285	80,743	(16.7)
Trading gains (losses), net	1,359	(1,831)	(174.2)	2,097	(3,211)	(165.3)
Gains on securities sales, net	4,525	48	9,327.1	26,453	8,641	206.1
Securities impairment losses	(11,500)	(1,794)	541.0	(18,571)	(10,037)	85.0
Gains on early extinguishment of debt	13,991	-	-	13,991	-	-
Total noninterest income	$ 31,090	$ 23,694	31.2	$ 91,255	$ 76,136	19.9

Our total noninterest income increased $7.4 million and $15.1 million for third quarter and year-to-date 2009, respectively, compared to the same periods in 2008. The increases were driven largely by significantly higher securities and debt extinguishment gains, which offset declines for the quarter and nine-month periods in fee-based revenues from the same periods in 2008.

Fee-based revenues decreased 11.8% and 12.3% for third quarter and year-to-date 2009, respectively, from the same periods in 2008. These decreases reflected the impact of lower transaction volumes caused by reduced consumer spending. All major fee categories decreased from third quarter 2008.

Service charges on deposit accounts declined 16.1% for third quarter 2009 compared to third quarter 2008 and 14.8% for the nine months ended September 30, 2009 compared to the same period in 2008 due to lower transaction volumes caused by reduced consumer spending.

Other service charges, commissions, and fees declined 12.7% for third quarter 2009 and 14.3% year-to-date compared to the same periods in 2008. The declines were due to reduced merchant fees generated from processing consumer transactions and lower sales of third-party annuity and investment products.

BOLI income represents benefit payments received and the change in cash surrender value ("CSV") of the policies, net of premiums paid. The change in CSV is attributable to earnings or losses credited to policies, based on investments made by the insurer. In 2009, BOLI income declined $1.6 million and $4.5 million from third quarter and year-to-date periods in 2008, respectively. In fourth quarter 2008, management elected to accept lower market returns in order to reduce its risk to market volatility through investment in shorter-duration, lower-yielding money market instruments. See the section titled "Investment in Bank Owned Life Insurance" for a discussion of our investment in BOLI.

Other income, which consists primarily of safe deposit box rentals and miscellaneous recoveries, were down slightly from the same periods in 2008.

Trading gains (losses) result from the change in fair value of trading securities. Such trading securities represent diversified investment securities held in a grantor trust under deferred compensation arrangements in which plan participants may direct amounts earned to be invested in securities other than Company stock. The change is substantially offset by an adjustment to salaries and benefits expense.

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

Gains on early extinguishment of debt of $14.0 million for third quarter 2009 resulted from the retirement of $39.3 million of trust preferred debt and $29.5 million of subordinated debt at a discount to par in exchange for approximately 5.6 million shares of the Company's common stock.

Noninterest Expense

Table 6
Noninterest Expense Analysis
(Dollar amounts in thousands)

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Compensation expense:						
Salaries and wages	$ 22,274	$ 20,805	7.1	$ 60,940	$ 59,972	1.6
Retirement and other employee benefits	5,142	6,191	(16.9)	18,016	19,582	(8.0)
Total compensation expense	27,416	26,996	1.6	78,956	79,554	(0.8)
FDIC insurance premiums	2,558	261	880.1	10,953	764	1,333.6
Net occupancy expense	5,609	5,732	(2.1)	17,309	17,411	(0.6)
Other real estate owned ("OREO") expense, net	3,461	637	443.3	7,766	2,120	266.3
Loan remediation costs	1,158	174	565.5	2,672	519	414.8
Other professional services	2,611	2,342	11.5	7,756	6,902	12.4
Equipment expense	2,228	2,484	(10.3)	6,754	7,502	(10.0)
Technology and related costs	2,230	1,990	12.1	6,612	5,581	18.5
Advertising and promotions	2,237	1,133	97.4	5,039	3,883	29.8
Merchant card expense	1,729	1,949	(11.3)	4,901	5,375	(8.8)
Other expenses	5,403	4,738	14.0	15,549	18,113	(14.2)
Total noninterest expense	$ 56,640	$ 48,436	16.9	$164,267	$ 147,724	11.2
Full-time equivalent ("FTE") employees	1,751	1,792	(2.3)	1,761	1,818	(3.1)

Efficiency ratio	59.13%	50.30%	57.64%	51.97%

Noninterest expense increased $8.2 million for third quarter 2009 compared to third quarter 2008 and $16.5 million for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The increases from 2008 to 2009 are due to higher loan remediation costs, including costs associated with maintaining OREO, and higher FDIC insurance premiums. The increase for the nine-month period also included a special deposit premium assessed by the FDIC during second quarter 2009 of $3.5 million. Year over year changes in other categories were generally due to the timing of expenses.

In May 2009, the FDIC issued a final rule which levied a special assessment applicable to all insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. The special assessment was part of the FDIC's efforts to rebuild the Deposit Insurance Fund ("DIF"). During third quarter 2009, the FDIC announced a proposal that all financial institutions would be required to prepay their next three years' deposit premiums during the fourth quarter of 2009. If adopted as proposed, our estimated three-year assessment is approximately $35 million. This prepayment will be capitalized initially and expensed as we incur FDIC insurance premiums in future periods.

Salaries and wages increased in third quarter and year-to-date 2009 compared to the same periods in 2008 due to an increase in the obligation to participants under deferred compensation plans resulting from changes in the fair value of trading securities held on behalf of plan participants. Such increases were partially offset by declines in incentive compensation and share-based compensation expense.

The declines in retirement and other employee benefits of $1.0 million for third quarter 2009 and $1.5 million for the nine-month periods in 2009 compared to the same periods in 2008 resulted from reductions in the accrual for profit sharing.

The 12.1% increase in technology and related costs from third quarter 2008 to third quarter 2009 was due to upgrade of technology for the delivery of voice communications over networks such as the Internet. This investment in technology, which we expect will be more than offset by future savings, positions us for the future by providing us with a much more cost-effective means of communicating and transferring data. This cost also provides a savings in telephone expense, which is included in other expenses. The remaining variance in technology and related costs resulted from standard contractual increases.

OREO expense, net, consists of real estate taxes, insurance, maintenance, and further write downs of carrying value to reflect declines in estimated value during the period, net of any rental income. Of the amounts separately shown as OREO expense, net, $1.1 million and $3.4 million represent further writedowns of OREO during third quarter and year-to-date 2009 periods, respectively. The balance of OREO properties increased from $23.7 million at September 30, 2008 to $57.9 million at September 30, 2009.

Advertising and promotions increased in third quarter and year-to-date 2009 compared to the same periods in 2008 due to the timing of marketing expenditures as 2008 expenditures were concentrated in the fourth quarter.

The decline in other expenses for the nine months ended September 30, 2009 compared to the same period in 2008 was spread over various noninterest expense categories including freight and courier expense, telephone, supplies, and amortization expense.

The efficiency ratio expresses noninterest expense as a percentage of tax-equivalent net interest income plus total fees, BOLI, and other income. Operating efficiency for third quarter 2009 was 59.13% compared to 50.3% for third quarter 2008.

Income Taxes

Our accounting policies underlying the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Notes 1 and 15 to the Consolidated Financial Statements of our 2008 10-K.

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

Income tax benefits totaled $5.9 million in third quarter 2009 compared to income tax expense of $796,000 in third quarter 2008. Income tax benefits totaled $21.8 million for the nine months ended September 30, 2009 compared to income tax expense of $5.9 million for the nine months ended September 30, 2008. The decrease in income tax expense from third quarter 2008 to third quarter 2009 was primarily attributable to a decrease in pre-tax income for those periods. This decrease was offset in part by a decrease in tax-exempt income from investment securities and BOLI, and an increase in state taxable income attributable to changes in Illinois tax law effective in 2009. The decrease in income tax expense for the first nine months of 2009 in comparison to the same period in 2008 was attributable to the same factors as for the quarter.

FINANCIAL CONDITION

Investment Portfolio Management

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

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

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Table 7
Investment Portfolio Valuation Summary
(Dollar amounts in thousands)

	As of September 30, 2009			As of December 31, 2008		
	Fair Value	Amortized Cost	% of Total	Fair Value	Amortized Cost	% of Total
Available-for-Sale						
U.S. Treasury securities	$ -	$ -	-	$ 1,041	$ 1,039	0.1
U.S. Agency securities	757	757	0.1	-	-	-
Collateralized mortgage obligations	331,207	322,780	22.5	698,839	694,285	29.9
Other mortgage-backed securities	244,175	233,396	16.3	518,265	504,918	21.7
State and municipal securities	708,314	680,216	47.5	906,747	907,036	39.1
Collateralized debt obligations	15,543	60,290	4.2	42,086	78,883	3.4
Corporate debt securities	34,393	35,787	2.5	33,325	35,731	1.5
Equity securities	15,280	15,142	1.0	15,883	16,089	0.7
Total available-for-sale	1,349,669	1,348,368	94.1	2,216,186	2,237,981	96.4
Held-to-Maturity						
State and municipal securities	84,230	83,860	5.9	84,592	84,306	3.6
Total securities	$ 1,433,899	$ 1,432,228	100.0	$ 2,300,778	$2,322,287	100.0

	At September 30, 2009			At December 31, 2008		
	Effective Duration (1)	Average Life (2)	Yield to Maturity	Effective Duration (1)	Average Life (2)	Yield to Maturity
Available-for-Sale						
U.S. Treasury securities	-	-	-	1.35%	1.50	0.89%
U.S. Agency securities	1.53%	1.40	0.78%	-	-	-
Collateralized mortgage obligations	1.07%	1.90	4.66%	1.25%	1.80	5.25%
Other mortgage-backed securities	1.48%	2.61	5.00%	1.75%	1.95	5.52%
State and municipal securities	5.23%	5.61	6.17%	5.26%	7.61	6.15%
Collateralized debt obligations	0.25%	7.21	0.91%	0.25%	5.84	3.26%
Other securities	4.77%	11.15	4.45%	6.03%	12.61	5.06%
Total available-for-sale	3.33%	4.41	5.31%	3.07%	4.51	5.62%
Held-to-Maturity						
State and municipal securities	6.38%	8.76	6.89%	7.00%	9.26	7.10%
Total securities	3.51%	4.66	5.40%	3.21%	4.69	5.67%

(1)

The effective duration of the securities portfolio represents the estimated percentage change in the fair value of the securities portfolio given a 100 basis point change up or down in the level of interest rates. This measure is used as a gauge of the portfolio's price volatility at a single point in time and is not intended to be a precise predictor of future fair values, as such values will be influenced by a number of factors.

(2) Average life is presented in years and represents the weighted-average time to receive all future cash flows, using the dollar amount of principal paydowns, including estimated principal prepayments, as the weighting factor.

As of September 30, 2009, our securities portfolio totaled \$1.4 billion, decreasing 37.7% from December 31, 2008, as we took advantage of opportunities in the market to sell securities at a net gain. During the first nine months of 2009, we sold \$843.1 million of mortgage-backed, municipal, and other securities that generated \$26.5 million of gains. These gains were partly offset by other-than-temporary impairment charges of \$18.6 million related to our trust preferred CDOs.

Net securities losses were \$7.0 million for third quarter 2009. During the quarter, we sold \$120.0 million of collateralized mortgage-backed, municipal, and other securities at a net gain of \$4.5 million, which was more than offset by an other-than-temporary impairment charge of \$11.5 million associated with our portfolio of trust-preferred collateralized debt obligations. Included in this amount was an aggregate \$1.2 million gain on the sale of Visa, Inc. Class B shares. During third quarter 2009, we securitized \$25.7 million of real estate 1-4 family loans, which are now included in the securities available-for-sale portfolio.

Our investments in trust preferred CDOs are supported by the credit of the underlying banks and insurance companies. The \$8.0 million increase in unrealized loss on these securities since December 31, 2008 reflects the market's perception of the overall deterioration in the strength of the financial sector and its negative bias toward structured investment vehicles given the current interest rate and liquidity environment. We do not believe this loss is an other-than-temporary impairment. We expect no further reduction in net cash flows from these investments from what has already been recognized, and we have both the intent and ability to hold them until maturity or recovery and more than likely will not be forced to sell them before recovering our cost basis. Our estimation of cash flows for these investments and resulting fair values were based upon cash flow modeling, as described in Note 16 of "Notes to the Consolidated Financial Statements."

As of September 30, 2009 gross unrealized gains in the state and municipal securities portfolio totaled \$29.2 million, and gross unrealized losses totaled \$1.1 million, resulting in a net unrealized gain of \$28.1 million at September 30, 2009 compared to an unrealized loss of \$289,000 at December 31, 2008. The change in fair value of municipal securities reflects a decline in market interest rates and a tightening of spreads, which drove the increase in fair values. The \$1.1 million in unrealized loss in the portfolio relates to securities that carry investment grade ratings, with the bulk of them supported by the general revenues of the issuing governmental entity and supported by third-party insurance. We do not believe the unrealized loss on any of these securities is other-than-temporary.

Other securities include corporate bonds and other miscellaneous equity securities. We do not believe the unrealized loss on any of these securities is other-than-temporary.

Securities that we have the ability and intent to hold until maturity are classified as securities held-to-maturity and are accounted for using historical cost, adjusted for amortization of premium and accretion of discount. Our held-to-maturity portfolio consists of state and municipal securities exclusively with customers with which we have longer-term relationships.

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LOAN PORTFOLIO AND CREDIT QUALITY

Portfolio Composition

Table 8
Loan Portfolio
(Dollar amounts in thousands)

	September 30, 2009	% of Total	December 31, 2008	% of Total	Annualized % Change
Commercial and industrial	$ 1,484,601	28.0	$ 1,490,101	27.8	(0.5)
Agricultural	200,955	3.8	216,814	4.1	(9.7)
Commercial real estate:					
Office	376,897	7.1	339,912	6.3	14.5
Retail	314,586	5.9	265,568	5.0	24.7
Industrial	459,793	8.7	419,761	7.8	12.7
Total office, retail, and industrial	1,151,276	21.7	1,025,241	19.1	16.4
Residential construction	400,502	7.5	509,059	9.5	(28.4)
Commercial construction	196,198	3.7	258,253	4.8	(32.0)
Commercial land	105,264	2.0	98,322	1.8	9.5
Multi-family	342,807	6.5	286,963	5.4	26.0
Investor-owned rental property	117,276	2.2	131,635	2.4	(14.5)
Other commercial real estate	636,153	12.0	597,694	11.2	8.5
Total commercial real estate	2,949,476	55.6	2,907,167	54.2	2.0
Subtotal – corporate loans	4,635,032	87.4	4,614,082	86.1	0.7
Direct installment	47,363	0.9	58,135	1.1	(24.7)
Home equity	478,204	9.0	477,105	8.9	0.3
Indirect installment	6,607	0.1	12,544	0.2	(63.1)
Real estate – 1-4 family	138,862	2.6	198,197	3.7	(39.9)
Subtotal – consumer loans	671,036	12.6	745,981	13.9	(13.3)
Total loans	$ 5,306,068	100.0	$ 5,360,063	100.0	(1.3)

Outstanding loans totaled $5.31 billion as of September 30, 2009, an annualized decrease of 1.3% from December 31, 2008. During the nine-month period ended September 30, 2009, we extended approximately $90 million in new credit, net of paydowns, which was more than offset by net charge-offs, conversion of loans to OREO, and the securitization of $25.7 million of 1-4 family real estate loans.

Non-performing Assets

Generally loans are placed on non-accrual status if principal or interest payments become 90 days or more past due and/or management deems the collectibility of the principal and/or interest to be in question. Loans to customers whose financial condition has deteriorated are considered for non-accrual status whether or not the loan is 90 days or more past due.

Once interest accruals are discontinued, accrued but uncollected interest is charged to current year operations. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Classification of a loan as non-accrual does not preclude the ultimate collection of loan principal or interest.

We continue to accrue interest on certain loans 90 days or more past due when such loans are well secured and collection of principal and interest is expected within a reasonable period.

Restructured loans are loans on which, due to deterioration in the borrower's financial condition, the original terms have been modified in favor of the borrower or either principal or interest has been forgiven. Restructured loans generally result in lower payments than originally required and therefore, have a lower risk of loss due to nonperformance than loans classified as non-accrual. We do not accrue interest on any restructured loan until such time as we believe all principal and interest under its modified terms are reasonably assured. Until such time, these loans continue to be reported as non-accrual loans.

Once the borrower demonstrates the ability to meet the modified terms of the restructured loan, we once again accrue interest. However, by regulation, such restructured loans continue to be separately reported as restructured until after the calendar year in which the restructuring occurred, providing the loan was restructured at market rate and terms.

OREO represents property acquired as the result of borrower defaults on loans. OREO properties are recorded at the lower of the recorded investment in the loans for which the properties served as collateral or estimated fair value, less estimated selling costs. Write-downs occurring at foreclosure are charged against the reserve for loan losses. On an ongoing basis, the carrying values of these properties may be reduced based upon new appraisals and/or market indications. Write-downs are recorded for subsequent declines in value and are included in other noninterest expense along with other expenses related to maintaining the properties.

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

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

	2009				2008
	September 30	% of Loan Category	June 30	March 31	December 31
Non-accrual loans:					
Commercial and industrial	$ 45,134	3.04%	$ 41,542	$ 33,245	$ 15,586
Agricultural	2,384	1.19%	452	12	12
Commercial real estate:					
Office	1,882	0.50%	2,821	7,566	-
Retail	11,654	3.70%	9,855	4,811	1,964
Industrial	2,202	0.48%	382	392	569
Total office, retail, and industrial	15,738	1.37%	13,058	12,769	2,533
Residential construction	138,593	34.60%	143,231	107,766	97,060
Commercial construction	-	0.00%	-	-	-
Commercial land	2,908	2.76%	3,833	8,984	2,080
Multi-family	15,910	4.64%	10,632	6,989	1,387
Investor-owned rental property	4,069	3.47%	2,787	2,536	270
Other commercial real estate	18,841	2.96%	14,642	4,493	4,564
Total commercial real estate	196,059	6.65%	188,183	143,537	107,894
Total corporate loans	243,577	5.26%	230,177	176,794	123,492
Consumer	8,253	1.55%	6,042	4,991	3,419
Real estate – 1-4 family	4,975	3.58%	1,034	1,756	857
Total non-accrual loans	256,805	4.84%	237,253	183,541	127,768
90 days or more past due loans (still accruing interest):					
Commercial and industrial	3,216	0.22%	7,174	16,208	6,818
Agricultural	-	0.00%	1,931	1,751	1,751
Commercial real estate:					
Office	349	0.09%	-	10,746	689
Retail	271	0.09%	1,013	1,366	1,912
Industrial	416	0.09%	-	607	613
Total office, retail, and industrial	1,036	0.09%	1,013	12,719	3,214
Residential construction					