

FIRST MIDWEST BANCORP INC

Form 10-K

March 01, 2010

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year-ended **December 31, 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**  
(State or other jurisdiction of  
incorporation or organization)

**36-3161078**  
(IRS Employer Identification No.)

**One Pierce Place, Suite 1500**

**Itasca, Illinois 60143-9768**

(Address of principal executive offices) (zip code)

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

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

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Title of each class	Name of each exchange on which registered
<b>Common Stock, \$.01 Par Value</b>	The Nasdaq Stock Market
<b>Preferred Share Purchase Rights</b>	The Nasdaq Stock Market

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2009, determined using a per share closing price on that date of \$7.31, as quoted on The Nasdaq Stock Market, was \$335,120,429.

As of March 1, 2010 there were 74,025,650 shares of common stock, \$.01 par value, outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Proxy Statement for the 2010 Annual Stockholders Meeting - Part III

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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 truly 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](http://www.firstmidwest.com/aboutinvestor_overview.asp). You may read and copy materials we file with the SEC from its Public Reference Room at 450 Fifth Street, NE, Washington DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. 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](mailto:investor.relations@firstmidwest.com).

### **CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES**

#### **LITIGATION REFORM ACT OF 1995**

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

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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 Items 1A and 7 of this Annual Report on Form 10-K, including the sections entitled Risk Factors and Management's Discussion and Analysis of Results of Operations, as well as our subsequent periodic and current reports filed with the SEC. However, these risks and uncertainties are not exhaustive. Other sections of this report describe additional factors that could adversely impact our business and financial performance.

Since mid-2007 the financial services industry and the securities markets in general have been materially and adversely affected by significant declines in the values of nearly all asset classes and by a 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.

**PART I**

**ITEM 1. BUSINESS**

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

First Midwest Bancorp, Inc. ( First Midwest or the Company ) is a bank holding company incorporated in Delaware in 1982 for the purpose of becoming a holding company registered under the Bank Holding Company Act of 1956, as amended (the Act ). The Company is one of Illinois largest publicly traded banking companies with assets of \$7.7 billion as of December 31, 2009 and is headquartered in the Chicago suburb of Itasca, Illinois.

***History***

The Company is the product of the consolidation of over 26 affiliated banks in 1983, followed by several significant acquisitions, including the purchase of SparBank, Incorporated, a \$449 million institution in 1997, Heritage Financial Services, Inc., a \$1.4 billion institution in 1998, CoVest Bancshares, a \$645.6 million institution in 2003, and Bank Calumet, Inc., a \$1.4 billion institution in 2006. On October 23, 2009, the Company acquired substantially all the assets of the \$260 million former First DuPage Bank in an FDIC-assisted transaction. For more information regarding the recent acquisition of First DuPage, please refer to Note 3 of Notes to Financial Statements in Item 8 of this Form 10-K.

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

***Subsidiaries***

First Midwest conducts substantially all of its operations through its wholly-owned subsidiary: First Midwest Bank (the Bank ). At December 31, 2009, the Bank had \$7.7 billion in total assets, \$5.9 billion in total deposits, and 96 banking offices primarily in suburban metropolitan Chicago. The Bank employed 1,722 full-time equivalent employees at December 31, 2009.

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The Bank operates the following wholly-owned subsidiaries:

FMB Investment Corporation is a Delaware corporation that manages investment securities, principally state and municipal obligations, and provides corporate management services to its wholly-owned subsidiary, FMB Investment Trust, a Maryland business trust. FMB Investment Trust manages many of the real estate loans originated by the Bank.

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

Six limited liability companies (Synergy Properties Holdings, LLC; FDB Berkshire, LLC; FDB Sheridan Terrace LLC; FDB Curtiss Street, LLC; Hamlin Wilson, LLC; and FDB Properties LLC), each of which holds OREO properties acquired by the former First DuPage Bank or the Bank.

Bank Calumet Financial Services, Inc. is an Indiana corporation, which is largely inactive.

During 2009, the Company sold its former insurance subsidiary, First Midwest Insurance Company, which had operated as a reinsurer of credit life, accident, and health insurance sold through the Bank. On December 28, 2009, First Midwest Investments, Inc., a wholly owned subsidiary of the Bank, was dissolved under Illinois law.

The Company has responsibility for the overall conduct, direction, and performance of its subsidiaries. The Company provides various services to its subsidiaries, establishes Company-wide policies and procedures, and provides other resources as needed, including capital.

### ***Market Area***

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

When comparing large national metropolitan areas, the Chicago metropolitan area currently ranks 3rd in the nation with respect to total businesses, 3rd in total population, 12th in average household income, and 12th in median income producing assets.

### ***Competition***

The banking and financial services industry in the Chicago metropolitan area is highly competitive, and the Company expects it to remain so in the future. Generally, the Bank competes for banking customers and deposits with other local, regional, and internet banks and savings and loan associations; personal loan and finance companies and credit unions; and mutual funds and investment brokers. The Company faces intense competition from local and out of state institutions within its service areas, and it expects to face increasing competition from on-line banking and financial institutions seeking to attract customers by providing access to services and products that mirror the services and products offered by traditional institutions.

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

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

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

### ***Our Business***

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

### **Deposit and Retail Services**

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

### **Lending Activities**

First Midwest originates commercial and industrial, agricultural, commercial real estate, and consumer loans. Substantially all of the Company's borrowers are residents of First Midwest's service areas. The Company's largest category of lending is commercial real estate (including residential construction loans), followed by commercial and industrial. Generally, real estate loans are secured by the land and any improvements to, or developments on, the land. Generally, loan-to-value ratios for unimproved and developed land at time of issuance are 50% and 65%, respectively. The Company's consumer loans consist primarily of home equity loans and lines of credit. For detailed information regarding the Company's loan portfolio, see the Loan Portfolio and Credit Quality section of Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

### ***First Midwest Sources of Funds***

First Midwest's ability to maintain affordable funding sources allows the Company to meet the credit needs of its customers and the communities it serves. Deposits are a relatively stable form of funding, and they are the primary source of the Company's funds for lending and other investment purposes. Deposits funded 67.5% of the Company's assets at the end of 2009, with a net loans to deposits ratio of 88.4%. Consumer and commercial deposits come from the Company's primary service areas through a broad selection of deposit products. By maintaining core deposits, the Company both controls its funding costs and builds client relationships.

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

### ***First Midwest Investment Activities***

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

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

### ***Participation in Temporary Government Economic Recovery Programs***

In response to the financial market crisis and continuing economic uncertainty, the United States government, specifically the U.S. Department of the Treasury (Treasury), the Board of Governors of the Federal Reserve System (Federal Reserve), and the Federal Deposit Insurance Corporation (FDIC), working in cooperation with foreign governments and other central banks, took a variety of extraordinary measures designed to restore confidence in the financial markets and to strengthen financial institutions, including measures available under the *Emergency Economic Stabilization Act of 2008* (EESA), as amended by the *American Recovery and Reinvestment Act of 2009* (AARA), which included the *Troubled Asset Relief Program* (TARP). TARP consists of 12 announced programs, of which 10 have been implemented. Many of the programs were temporary in nature and designed to promote stability in the financial system. Below are summaries of certain recovery programs that are still in effect, including programs in which First Midwest participates:

*Increase in FDIC Deposit Insurance.* The EESA increased the maximum deposit insurance amount up to \$250,000 until December 31, 2013 and removed the statutory limits on the FDIC's ability to borrow from the Treasury during this period.

*Capital Purchase Program.* Under the EESA, the Treasury may take a range of actions to provide liquidity to the U.S. financial markets, including the direct purchase of equity of financial institutions through the Treasury's Capital Purchase Plan (CPP). The Company elected to participate in the CPP, and on December 5, 2008, First Midwest issued to the Treasury, in exchange for aggregate consideration of \$193.0 million, (1) 193,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B, liquidation preference of \$1,000 per share (Preferred Shares); and (2) a ten-year warrant (Warrant) to purchase up to 1,305,230 shares of the Company's common stock, par value \$0.01 per share (Common Stock) at an exercise price, subject to anti-dilution adjustments, of \$22.18 per share. Cumulative dividends on the Preferred Shares will accrue on the liquidation preference at a rate of 5% per annum for the first five years and at a rate of 9% per annum thereafter. The securities were sold in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Preferred Shares generally are nonvoting and qualify as Tier 1 capital.

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

*Temporary Liquidity Guarantee Program ( TLGP ).* Under the Transaction Account Guarantee Program of the TLGP, the FDIC temporarily provides a 100% guarantee of the deposits in non-interest-bearing transaction deposit accounts in participating financial institutions. The Company participates in this program. Consequently, all funds held in non-interest-bearing transaction accounts (demand deposit accounts), Interest on Lawyers Trust Accounts (IOLTAs), and low-interest NOW accounts (defined as NOW accounts with interest rates no higher than 0.50%) with the Bank are covered under this program. This program has been extended through June 30, 2010.

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

Many of the temporary recovery programs are approaching their expiration date. However, the U.S. government is considering numerous legislative and administrative proposals sponsored by various members of Congress and the Presidential Administration relating to long-term regulatory reform of the financial markets. In some cases, the proposals include a radical overhaul of the regulation of financial institutions or limitations on the products they offer. Many of these proposals would impose stricter capital and prudential standards, reporting, disclosure, and operational requirements on banks and financial institutions. The regulations or regulatory policies that are applicable to the Company and eventually adopted by the U.S. government may be disruptive to the Company's business and could have a material adverse effect on its business, financial condition, and results of operations.

### ***Supervision and Regulation***

The Company and its subsidiaries are subject to regulation and supervision by various governmental regulatory authorities including the Federal Reserve, the FDIC, and the Illinois Department of Financial and Professional Regulation (the IDFPFR). Financial institutions and their holding companies are extensively regulated under federal and state law.

Federal and state laws and regulations generally applicable to financial institutions, such as the Company and its subsidiaries, regulate, among other things, the scope of business, investments, reserves against deposits, capital levels, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations, and dividends. This supervision and regulation is intended primarily for the protection of the FDIC's deposit insurance fund ( DIF ) and the depositors, rather than the stockholders, of a financial institution.

The following references to material statutes and regulations affecting the Company and its subsidiaries are brief summaries thereof and are qualified in their entirety by reference to such statutes and regulations. Any change in applicable law or regulations may have a material effect on the business or operations of the Company and its subsidiaries. The operations of the Company may also be affected by changes in the policies of various

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regulatory authorities. The Company cannot accurately predict the nature or the extent of the effects that any such changes would have on its business and earnings.

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

Generally, the Act governs the acquisition and control of banks and non-banking companies by bank holding companies. A bank holding company is subject to regulation under the Act and is required to register with the Federal Reserve under the Act. The Act requires a bank holding company to file an annual report of its operations and such additional information as the Federal Reserve may require and is subject, along with its subsidiaries, to examination by the Federal Reserve. The Federal Reserve has jurisdiction to regulate the terms of certain debt issues of bank holding companies, including the authority to impose reserve requirements.

The acquisition of 5% or more of the voting shares of any bank or bank holding company generally requires the prior approval of the Federal Reserve and is subject to applicable federal and state law, including the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ( Riegle-Neal ) for interstate transactions. The Federal Reserve evaluates acquisition applications based on, among other things, competitive factors, supervisory factors, adequacy of financial and managerial resources, and banking and community needs considerations.

The Act also prohibits, with certain exceptions, a bank holding company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any non-banking company unless the non-banking activities are found by the Federal Reserve to be so closely related to banking as to be a proper incident thereto. Under current regulations of the Federal Reserve, a bank holding company and its non-bank subsidiaries are permitted, among other activities, to engage in such banking-related business ventures as consumer finance, equipment leasing, data processing, mortgage banking, financial and investment advice, and securities brokerage services. The Act does not place territorial restrictions on the activities of a bank holding company or its non-bank subsidiaries.

Federal law prohibits acquisition of control of a bank or bank holding company without prior notice to certain federal bank regulators. Control is defined in certain cases as the acquisition of as little as 10% of the outstanding shares of any class of voting stock. Furthermore, under certain circumstances, a bank holding company may not be able to purchase its own stock, where the gross consideration will equal 10% or more of the company's net worth, without obtaining approval of the Federal Reserve. Under the Federal Reserve Act, banks and their affiliates are subject to certain requirements and restrictions when dealing with each other (affiliate transactions including transactions with their bank holding company). The Company is also subject to the provisions of the Illinois Bank Holding Company Act.

### **Source of Strength Doctrine**

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

### **Interstate Banking**

Bank holding companies are permitted to acquire banks and bank holding companies in any state and to be acquired, subject to the requirements of Riegle-Neal and, in some cases, applicable state law.

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Under Riegle-Neal, adequately capitalized and managed bank holding companies may be permitted by the Federal Reserve to acquire control of a bank in any state. States, however, may prohibit acquisitions of banks that have not been in existence for at least five years. The Federal Reserve is prohibited from approving an application for acquisition if the applicant controls more than 10% of the total amount of deposits of insured depository institutions nationwide. In addition, interstate acquisitions may also be subject to statewide concentration limits.

The Federal Reserve would be prohibited from approving an application if, prior to consummation, the proposed acquirer controls any insured depository institution or branch in the home state of the target bank, and the applicant, following consummation of an acquisition, would control 30% or more of the total amount of deposits of insured depository institutions in that state. This legislation also provides that the provisions on concentration limits do not affect the authority of any state to limit or waive the percentage of the total amount of deposits in the state which would be held or controlled by any bank or bank holding company to the extent the application of this limitation does not discriminate against out-of-state institutions.

Interstate branching under Riegle-Neal permits banks to merge across state lines, thereby creating a bank headquartered in one state with branches in other states. Approval of interstate bank mergers is subject to certain conditions including adequate capitalization, adequate management, Community Reinvestment Act compliance, deposit concentration limits (as set forth above), compliance with federal and state antitrust laws, and compliance with applicable state consumer protection laws. An interstate merger transaction may involve the acquisition of a branch without the acquisition of the bank only if the law of the state in which the branch is located permits out-of-state banks to acquire a branch of a bank in that state without acquiring the bank. Following the consummation of an interstate transaction, the resulting bank may establish additional branches at any location where any bank involved in the transaction could have established a branch under applicable federal or state law, if such bank had not been a party to the merger transaction.

Riegle-Neal allowed each state the opportunity to opt out, thereby prohibiting interstate branching within that state. Of the three states in which the Bank is located (Illinois, Indiana, and Iowa), none of them has adopted legislation to opt out of the interstate merger provisions. Furthermore, pursuant to Riegle-Neal, a bank is able to add new branches in a state in which it does not already have banking operations if such state enacts a law permitting such de novo branching, or, if the state allows acquisition of branches, subject to applicable state requirements. Illinois law allows de novo banking with other states that allow Illinois banks to branch de novo in those states.

### **Illinois Banking Law**

The Illinois Banking Act ( IBA ) governs the activities of the Bank, an Illinois banking corporation. The IBA defines the powers and permissible activities of an Illinois state-chartered bank, prescribes corporate governance standards, imposes approval requirements on mergers of state banks, prescribes lending limits, and provides for the examination of state banks by the IDFPR. The Banking on Illinois Act ( BIA ) became effective in mid-1999 and amended the IBA to provide a wide range of new activities allowed for Illinois state-chartered banks, including the Bank. The provisions of the BIA are to be construed liberally in order to create a favorable business climate for banks in Illinois. The main features of the BIA are to expand bank powers through a wild card provision that authorizes Illinois state-chartered banks to offer virtually any product or service that any bank or thrift may offer anywhere in the country, subject to restrictions imposed on those other banks and thrifts, certain safety and soundness considerations, and prior notification to the IDFPR and the FDIC.

### **Federal Reserve Act**

The Bank is subject to Sections 23A and 23B of the Federal Reserve Act, which restrict or impose requirements on financial transactions between federally insured depository institutions and affiliated companies. The statute limits credit transactions between a bank and its affiliates, prescribes terms and conditions for bank affiliate

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transactions deemed to be consistent with safe and sound banking practices, requires arms-length transactions between affiliates, and restricts the types of collateral security permitted in connection with a bank's extension of credit to affiliates. Section 22(h) of the Federal Reserve Act limits how much and on what terms a bank may lend to its insiders and insiders of its affiliates, including executive officers and directors.

### **Community Reinvestment Act**

The Community Reinvestment Act of 1977 (CRA) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. The applicable federal regulators regularly conduct CRA examinations to assess the performance of financial institutions and assign one of four ratings to the institution's records of meeting the credit needs of its community. During its last examination, the Bank received a rating of outstanding, the highest available.

### **Overdraft Regulation**

The Federal Reserve has amended Regulation E (Electronic Fund Transfers) effective July 1, 2010 to require consumers to opt in, or affirmatively consent, to the institution's overdraft service for ATM and one-time debit card transactions, before overdraft fees may be assessed on the account. Consumers will also be provided a clear disclosure of the fees and terms associated with the institution's overdraft service.

### **Other Regulation**

The Bank is subject to a variety of federal and state laws and regulations governing its operations. For example, deposit activities are subject to such acts as the Federal Truth in Savings Act and the Illinois Consumer Deposit Account Act. Electronic banking activities are subject to federal law, including the Electronic Funds Transfer Act, and state laws. Trust activities of the Bank are subject to the Illinois Corporate Fiduciaries Act. Loans made by the Bank are subject to applicable provisions of the Illinois Interest Act, the Federal Truth in Lending Act, and the Illinois Financial Services Development Act.

The Bank is also subject to a variety of other laws and regulations concerning equal credit opportunity, fair lending, customer privacy, identity theft, and fair credit reporting.

As an Illinois banking corporation controlled by a bank holding company, the Bank is subject to the rules regarding change of control in the Act and the Federal Deposit Insurance Act (FDIA) and is also subject to the rules regarding change in control of Illinois banks contained in the IBA and the Illinois Bank Holding Company Act.

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

The GLB Act allows for banks, other depository institutions, insurance companies, and securities firms to enter into combinations that permit a single financial services organization to offer customers a more comprehensive array of financial products and services. The GLB Act defines a financial holding company (FHC), which is regulated by the Federal Reserve. Functional regulation of the FHC's subsidiaries is conducted by their primary functional regulators. Pursuant to the GLB Act, bank holding companies, foreign banks, and their subsidiary depository institutions electing to qualify as an FHC must be well managed, well capitalized, and rated at least satisfactory under the Community Reinvestment Act in order to engage in new financial activities.

An FHC may engage in securities and insurance activities and other activities that are deemed financial in nature or incidental to a financial activity under the GLB Act, such as merchant banking activities. While aware of the

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flexibility of the FHC statute, the Company has, for the time being, decided not to become an FHC. The activities of bank holding companies that are not FHCs will continue to be regulated by, and limited to, activities permissible under the Act.

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

The Bank is also subject to certain federal and state laws that limit the use and distribution of non-public personal information to subsidiaries, affiliates, and unaffiliated entities.

### **Bank Secrecy Act and USA PATRIOT Act**

In 1970, Congress enacted the Currency and Foreign Transactions Reporting Act, commonly known as the Bank Secrecy Act (the BSA). The BSA requires financial institutions to maintain records of certain customers and currency transactions and to report certain domestic and foreign currency transactions, which may have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings. Under this law, financial institutions are required to develop a BSA compliance program.

In 2001, the President signed into law comprehensive anti-terrorism legislation known as the USA PATRIOT Act. Title III of the USA PATRIOT Act requires financial institutions, including the Company and the Bank, to help prevent and detect international money laundering and the financing of terrorism and prosecute those involved in such activities. The Treasury has adopted additional requirements to further implement Title III.

Under these regulations, a mechanism has been established for law enforcement officials to communicate names of suspected terrorists and money launderers to financial institutions to enable financial institutions to promptly locate accounts and transactions involving those suspects. Financial institutions receiving names of suspects must search their account and transaction records for potential matches and report positive results to the Treasury Financial Crimes Enforcement Network (FinCEN). Each financial institution must designate a point of contact to receive information requests. These regulations outline how financial institutions can share information concerning suspected terrorist and money laundering activity with other financial institutions under the protection of a statutory safe harbor if each financial institution notifies FinCEN of its intent to share information.

The Treasury has also adopted regulations intended to prevent money laundering and terrorist financing through correspondent accounts maintained by U.S. financial institutions on behalf of foreign banks. Financial institutions are required to take reasonable steps to ensure that they are not providing banking services directly or indirectly to foreign shell banks.

In addition, banks must have procedures in place to verify the identity of the persons with whom they deal.

### **Capital Guidelines**

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

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The minimum capital ratios established by the guidelines are based on both tier 1 and total capital to total risk-based assets (as defined in the regulations). In addition to the risk-based capital requirements, the Federal Reserve and the FDIC require banking institutions to maintain a minimum leveraged-capital ratio to supplement the risk-based capital guidelines. The Company and the Bank are well capitalized by these standards, the highest applicable ratings.

### **Dividends**

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

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

### **FDIC Insurance Premiums**

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

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

In December 2008, the FDIC issued a final rule that raised the then current assessment rates uniformly by 7 basis points for the first quarter of 2009 assessment, which resulted in annualized assessment rates for institutions in the highest risk category (Risk Category 1 institutions) ranging from 12 to 14 basis points (basis points representing cents per \$100 of assessable deposits). In February 2009, the FDIC issued final rules to amend the DIF restoration plan, change the risk-based assessment system and set assessment rates for Risk Category 1 institutions beginning in the second quarter of 2009. The initial base assessment rates for Risk Category 1 institutions range from 12 to 16 basis points, on an annualized basis. After the effect of potential base-rate adjustments, total base assessment rates range from 7 to 24 basis points. The potential adjustments to a Risk Category 1 institution's initial base assessment rate, include (i) a potential decrease of up to 5 basis points for long-term unsecured debt, including senior and subordinated debt and (ii) a potential increase of up to 8 basis points for secured liabilities in excess of 25% of domestic deposits.

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

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exceed 10 basis points of domestic deposits. The special assessment was part of the FDIC's efforts to rebuild the DIF. Deposit insurance expense during 2009 included \$3.5 million recognized in the second quarter related to the special assessment.

In November 2009, the FDIC issued a rule that required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011. In December 2009, the Company paid \$34.7 million in prepaid risk-based assessments. This amount is shown as a separate line item on the Consolidated Statements of Financial Condition included in Item 8 of this Form 10-K. FDIC insurance expense totaled \$13.7 million in 2009, \$1.1 million in 2008, and \$747,000 in 2007. FDIC insurance expense includes deposit insurance assessments and Financing Corporation ( FICO ) assessments related to outstanding FICO bonds. The FICO is a mixed-ownership government corporation established by the Competitive Equality Banking Act of 1987 whose sole purpose was to function as a financing vehicle for the now defunct Federal Savings & Loan Insurance Corporation.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

### **Sarbanes-Oxley Act of 2002**

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

### **Executive Compensation Limitations**

Incident to its participation in the CPP, the Company is subject to the executive compensation limitations contained in the EESA and AARA. These limitations apply to certain of the Company's senior and highly compensated officers and apply so long as the Company holds TARP funds. Currently the limitations include: (1) a prohibition on accruing or paying any bonus, retention award, or incentive compensation to the five most highly compensated officers; (2) a prohibition on making golden parachute payments (as defined by IRS Section 280(G)) to certain senior and highly compensated officers; (3) a prohibition on the payment of any tax gross-up to certain senior and highly compensated officers; (4) the recovery of any bonus or incentive compensation paid to certain senior and highly compensated officers if the financial criteria it was based on was later proven to be materially inaccurate; and (5) a prohibition on compensation that encourages employees to take unnecessary and excessive risks that could threaten the value of the Company.

The Company's Compensation Committee must also certify that it has reviewed with the Company's senior risk officers at least every six months: (1) the Company's compensation plans for senior executive officers to ensure that the plans do not encourage unnecessary and excessive risks taking that may threaten the value of the Company; and (2) all employee compensation plans in light of the risks posed to the Company.

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The ARRA also empowers the Treasury Secretary with the authority to review bonus, retention, and other compensation paid to senior executive officers that have received the TARP assistance to determine if the compensation was inconsistent with the purposes of the ARRA or TARP, or otherwise contrary to the public interest and, if so, seek to negotiate reimbursements. The provision of the ARRA will apply to the Company until it has redeemed the securities sold to the Treasury under the CPP. (See the section captioned "Participation in Temporary Government Economic Recovery Programs - Capital Purchase Program" in Part I, Item 1 of this Form 10-K.) Under the ARRA such redemption is now permitted without penalty and without the need to raise new capital (as was required under the terms of the original TARP CPP), subject to the Treasury's consultation with the recipient's appropriate regulatory agency.

## **Future Legislation**

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

## **ITEM 1A. RISK FACTORS**

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

### **Risks Related to the Company's Business**

#### *The Company's Business May Be Adversely Affected by Conditions in the Financial Markets and Economic Conditions Generally*

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

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The suburban metropolitan Chicago market and the United States as a whole has gone through a prolonged downward economic cycle from 2007 through 2009. Significant weakness in market conditions adversely impacted all aspects of the economy including the Company's business. In particular, dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, negatively impacted the credit performance of construction loans, which resulted in significant write-downs of assets by many financial institutions. Business activity across a wide range of industries and regions was greatly reduced, and local governments and many businesses experienced serious difficulty due to the lack of consumer spending and the lack of liquidity in the credit markets. In addition, unemployment increased significantly during that period. The business environment was adverse for many households and businesses in the suburban metropolitan Chicago market, United States, and worldwide.

Overall, during the past two years, the general business environment has had an adverse effect on the Company's business, and there can be no assurance that the environment will improve in the near term. However, during the first quarter of fiscal year 2010, the economy began to show signs of recovery, as evidenced by an increase in consumer spending and stabilization of the labor market, the housing sector, and financial markets. However, unemployment levels remained elevated, housing prices remained depressed, and demand for housing was weak due to distressed sales and tightened lending standards. Consequently, notwithstanding preliminary signs of recovery, there can be no assurance that the economic conditions in the suburban metropolitan Chicago market and the United States will improve in the near term. Furthermore, a worsening of economic conditions would likely exacerbate the adverse effects of these difficult market conditions on the Company and others in the financial institutions industry. Continued market stress could have a material adverse effect on the credit quality of the Company's loans, and therefore, its financial condition and results of operations.

### *The Company Is Subject To Interest Rate Risk*

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

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

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### *The Company Is Subject To Lending Risk*

There are inherent risks associated with the Company's lending activities. These risks include the impact of changes in interest rates and changes in the economic conditions in the markets where the Company operates as well as those across the United States. Increases in interest rates and/or continuing weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing those loans. Continuing economic weakness on real estate and related markets could further increase the Company's lending risk as it relates to its commercial real estate loan portfolio and the value of the underlying collateral. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil monetary penalties against the Company.

As of December 31, 2009, 83.2% of the Company's loan portfolio consisted of commercial and industrial and commercial real estate loans. These types of loans are typically larger loans. Because the Company's loan portfolio contains a significant number of commercial and industrial and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Loans" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," located elsewhere in this report for further discussion related to commercial and industrial and commercial real estate loans.

### *The Company's Reserve For Loan Losses May Be Insufficient*

The Company maintains a reserve for loan losses, which is a reserve established through a provision for loan losses charged to expense that represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The reserve, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the reserve reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political, and regulatory conditions; and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the reserve for loan losses inherently involves a high degree of subjectivity and requires the Company to make estimates of significant credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of the Company's control, may require an increase in the reserve for loan losses. In addition, bank regulatory agencies periodically review the Company's reserve for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different from those of management. In addition, if charge-offs in future periods exceed the reserve for loan losses, the Company will need additional provisions to increase the reserve for loan losses. Any increases in the reserve for loan losses will result in a decrease in net income and capital and may have a material adverse effect on the Company's financial condition and results of operations. See the section captioned "Reserve for Loan Losses" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," located elsewhere in this report for further discussion related to the Company's process for determining the appropriate level of the reserve for loan losses.

### *Real Estate Market Volatility and Future Changes in Disposition Strategies Could Result in Net Proceeds that Differ Significantly from Other Real Estate Owned ( OREO ) Fair Value Appraisals*

The Company's OREO portfolio consists of properties that it obtained through foreclosure in satisfaction of loans. OREO properties are recorded at the lower of the recorded investment in the loans for which the properties served as collateral or estimated fair value, less estimated selling costs. Generally, in determining fair value an

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orderly disposition of the property is assumed, except where a different disposition strategy is expected. Significant judgment is required in estimating the fair value of OREO property, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility, as experienced during 2008 and 2009.

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

### *The Company's Estimate of Fair Values for Its Investments May Not Be Realizable If It Were to Sell These Securities Today*

As of December 31, 2009, 99.8% of the Company's available-for-sale securities were carried at fair value. Accounting standards require the Company to categorize these according to fair value valuation hierarchy. Ninety-nine percent of these were categorized in level 2 of the valuation hierarchy (meaning that their fair value was determined by quoted prices for similar assets or other observable inputs). The remaining were categorized as level 3 (meaning that their fair value was determined by inputs that are unobservable in the market and therefore require a greater degree of management judgment). The determination of fair value for securities categorized in level 3 involves significant judgment due to the complexity of factors contributing to the valuation, many of which are not readily observable in the market. The current market disruptions make valuation even more difficult and subjective.

The Company has historically placed a high level of reliance on information obtained from third-party sources to measure fair values. For certain of its securities, the Company uses a structured credit valuation firm to perform cash flow projections using various historical and market inputs. For other securities, third-party sources also use assumptions, judgments, and estimates in determining securities values, and different third parties use different methodologies or provide different prices for similar securities. In addition, the nature of the business of the third party source that is valuing the securities at any given time could impact the valuation of the securities. Consequently, the ultimate sales price for any of these securities could vary significantly from the recorded fair value at December 31, 2009, especially if the security is sold during a period of illiquidity or market disruption or as part of a large block of securities under a forced transaction.

### *Turmoil in the Financial Markets Could Result in Lower Fair Values for the Company's Investment Securities*

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

### *The Company Is Subject To Environmental Liability Risk Associated With Lending Activities*

A significant portion of the Company's loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and could materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the

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Company's exposure to environmental liability. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company's financial condition and results of operations.

*The Company's Investment in Bank Owned Life Insurance May Decline in Value*

The Company currently has bank owned life insurance contracts with a cash surrender value ( CSV ) of \$198.0 million. A majority of these contracts are separate account contracts. Such contracts are supported by underlying investments whose fair values are subject to volatility in the market. The Company has limited its risk of loss in value of the securities by putting in place stable value contracts that provide protection from a decline in fair value down to 80% of the CSV of the insurance policies. To the extent fair values on individual contracts fall below 80% of book value, the CSV of specific contracts may be reduced or the underlying assets transferred to short-duration investments, resulting in lower earnings. Given the decline in the market during 2008, the Company transferred certain assets underlying specific separate contracts to money market accounts. However, the Company may, in order to increase future returns on investment, redeploy underlying assets into investments subject to higher volatility. Currently, the fair value for all contracts exceeds 80% of book value, but continued turmoil in the market could result in declines that could have a material adverse effect on the Company's financial condition and results of operations.

*The Company May Be Adversely Affected By the Soundness Of Other Financial Institutions*

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

*The Company Operates In A Highly Competitive Industry and Market Area*

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

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

Developing, maintaining, and building long-term customer relationships;

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

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

### *New Lines of Business or New Products and Services May Subject the Company to Additional Risks*

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

### *The Company Is Subject To Extensive Government Regulation and Supervision*

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

In response to the recent financial crisis, the U.S. government is considering numerous legislative and administrative proposals sponsored by various members of Congress and the Presidential Administration relating to long-term regulatory reform of the financial markets. In some cases the proposals include a radical overhaul of the regulation of financial institutions or limitations on the products they offer. Many of these proposals would impose stricter capital and prudential standards, reporting, disclosure and business operation requirements on banks and financial institutions. Accordingly, it is likely that there will be significant changes to the banking and financial institutions regulatory regimes in the near future. The regulations or regulatory policies that are eventually adopted and applicable to the Company may be disruptive to the Company's business and could have a material adverse effect on its business, financial condition, and results of operations.

Changes to statutes, regulations, or regulatory policies, including changes in the interpretation or implementation of those policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil monetary penalties, and/or damage to the Company's reputation, which could have a material adverse effect on the Company's business, financial condition, and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

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See the section captioned "Supervision and Regulation" in Item 1, "Business," and Note 20 of "Notes to Consolidated Financial Statements" included in Item 8, "Financial Statements and Supplementary Data," of this Form 10-K.

### *Overdraft Regulation Could Have an Adverse Effect on the Company*

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

### *Rapidly Implemented Legislative and Regulatory Actions Could Have an Unanticipated and Adverse Effect on the Company*

In response to the recent financial market crisis, the United States government, specifically the Treasury, Federal Reserve, and FDIC, working in cooperation with foreign governments and other central banks, has taken a variety of extraordinary measures designed to restore confidence in the financial markets and to strengthen financial institutions. The rulemaking relating to these measures was accomplished on a rapid emergency basis in order to address immediate concerns about the stability and continued existence of the global financial system. Recovery programs were rapidly proposed, adopted, and sometimes quickly abandoned in response to changing market conditions and other concerns. The speed of market developments required the government to abandon its traditional pattern and timeline of legislative and regulatory rulemaking, and issue rules on an interim basis without prior notice and comment. Rulemaking in this manner rather than through the traditional legislative practice does not allow for input by regulated financial institutions, such as the Company, and could lead to uncertainty in the financial markets, disruption to the Company's business, increased costs, and material adverse effects on the Company's financial condition and results of operations.

### *The Short-Term and Long-Term Impact of the New Basel II Capital Standards and the Forthcoming New Capital Rules to be Proposed for Non-Basel II U.S. Banks is Uncertain*

Basel II refers to the results/pronouncements issued by an international committee formed to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against financial and operational risks. The name comes from Basel, Switzerland, the city in which the main international organization, The Bank for International Settlements, is located. Basel II was issued in 2004 and is an update of an earlier accord, Basel I. The concept is to address minimum capital requirements, supervisory review, and market discipline.

As a result of the recent deterioration in the global credit markets and the potential impact of increased liquidity risk and interest rate risk, it is unclear what the short-term impact of the implementation of Basel II may be or what impact a pending alternative approach for non-Basel II U.S. banks may have on the cost and availability of different types of credit and the potential compliance costs of implementing the new capital standards.

### *The Level of the Commercial Real Estate Loan Portfolio May Subject the Company to Additional Regulatory Scrutiny*

The FDIC, the Federal Reserve, and the Office of the Comptroller of the Currency have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under the guidance, a financial institution that is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors, (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by

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multifamily and non-farm residential properties, loans for construction, land development, and other land loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300% or more of total capital. The joint guidance requires heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment, and monitoring through market analysis and stress testing.

### *The Company's Information Systems May Experience an Interruption or Breach in Security*

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

### *The Company Is Dependent Upon Outside Third Parties for Processing and Handling of Company Records and Data*

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

### *The Company Continually Encounters Technological Change*

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

### *The Company Is Subject To Claims and Litigation Pertaining to Fiduciary Responsibility*

From time to time, customers make claims and take legal action pertaining to the Company's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Company's performance of its

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

### *Consumers and Businesses May Decide Not to Use Banks to Complete Their Financial Transactions*

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

### *The Company's Controls and Procedures May Fail or Be Circumvented*

Management regularly reviews and updates the Company's loan underwriting and monitoring process, internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, financial condition, and results of operations.

### *Financial Services Companies Depend Upon the Accuracy and Completeness of Information About Customers and Counterparties*

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

### *The Company and Its Subsidiaries Are Subject To Examinations and Challenges by Taxing Authorities*

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

### *The Company and Its Subsidiaries May Not Be Able To Realize the Benefit of Deferred Tax Assets*

The Company records deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. The deferred tax assets can be recognized in future periods dependent upon a number of factors, including the ability to realize the asset through

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carryback or carryforward to taxable income in prior or future years, the future reversal of existing taxable temporary differences, future taxable income, and the possible application of future tax planning strategies. If the Company is not able to recognize deferred tax assets in future periods, it could have a material adverse effect on the Company's financial condition and results of operations.

### *The Company and Its Subsidiaries Are Subject To Changes in Federal and State Tax Laws and Changes in Interpretation of Existing Laws*

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

### *The Company and Its Subsidiaries Are Subject To Changes in Accounting Principles, Policies, or Guidelines*

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

### *The Company May Not Be Able to Attract and Retain Skilled People*

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

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

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

### *The Company Is a Bank Holding Company and Its Sources of Funds Are Limited*

The Company is a bank holding company, and its operations are primarily conducted by the Bank, which is subject to significant federal and state regulation. Cash available to pay dividends to stockholders of the Company is derived primarily from dividends received from the Bank. The Company's ability to receive dividends or loans from its subsidiaries is restricted. Dividend payments by the Bank to the Company in the future will require generation of future earnings by the Bank and could require regulatory approval if the proposed dividend is in excess of prescribed guidelines. Further, the Company's right to participate in the assets of the Bank upon its liquidation, reorganization, or otherwise will be subject to the claims of the Bank's creditors, including depositors, which will take priority except to the extent the Company may be a creditor with a recognized claim. As of December 31, 2009, the Company's subsidiaries had deposits and other liabilities of \$6.8 billion.

### *The Company Could Experience an Unexpected Inability to Obtain Needed Liquidity*

Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities. The ability of a financial institution to meet its current

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financial obligations is a function of its balance sheet structure, its ability to liquidate assets, and its access to alternative sources of funds. The Company seeks to ensure its funding needs are met by maintaining a level of liquidity through asset and liability management. If the Company becomes unable to obtain funds when needed, it could have a material adverse effect on the Company's business and, in turn, the Company's financial condition and results of operations.

### *Severe Weather, Natural Disasters, Acts of War or Terrorism and Other External Events Could Significantly Impact the Company's Business*

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

### *Managing Reputational Risk Is Important To Attracting and Maintaining Customers, Investors, and Employees*

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

### *Future Acquisitions May Disrupt the Company's Business and Dilute Stockholder Value*

In addition to generating internal growth, in the past the Company has strategically acquired banks or branches of other banks. The Company may consider future acquisitions to supplement internal growth opportunities. Acquiring other banks or branches involves potential risks, including:

- Exposure to unknown or contingent liabilities of acquired banks;
- Exposure to asset quality issues of acquired banks;
- Disruption of the Company's business;
- Loss of key employees and customers of acquired banks;
- Short-term decrease in profitability;
- Diversion of management's time and attention;
- Issues arising during transition and integration; and
- Dilution in the ownership percentage of holdings of the Company's common stock.

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

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### *Competition for Acquisition Candidates Is Intense*

Competition for acquisitions is intense. Numerous potential acquirors compete with the Company for acquisition candidates. The Company may not be able to successfully identify and acquire suitable targets, which could slow the Company's growth rate.

### *The Company May Engage in FDIC-Assisted Transactions, Which Could Present Additional Risks To Its Business*

In the current economic environment, the Company may be presented with opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. These acquisitions involve risks similar to acquiring existing banks even though the FDIC might provide assistance to mitigate certain risks such as sharing in exposure to loan losses and providing indemnification against certain liabilities of the failed institution. However, because these acquisitions are for failing banks and structured in a manner that would not allow the Company the time normally associated with preparing for and evaluating an acquisition (including preparing for integration of an acquired institution), the Company may face additional risks if it engages in FDIC-assisted transactions. The assets the Company would acquire would be more troubled than in a typical acquisition. The deposits the Company would assume would generally be higher priced than in a typical acquisition and therefore subject to higher attrition. Integration could be more difficult in this type of acquisition than in a typical acquisition since key staff would have departed. Any inability to overcome these risks could have an adverse effect on the Company's ability to achieve its business strategy and maintain its market value and profitability.

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

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

### *Failure to Comply with the Terms of Loss Sharing Arrangements with the FDIC May Result in Significant Losses, and the Company May Become Dependant Upon Third Party Vendors in Connection with FDIC-Assisted Transactions*

On October 23, 2009, the Bank entered into a Purchase and Assumption Agreement and Loss Share Agreement with the FDIC, under which the Bank assumed all deposits and certain identified assets and liabilities of the former First DuPage Bank. Under the Loss Share Agreement, the FDIC will reimburse the Bank for a portion of losses arising from loan assets of the former First DuPage, specifically 80% of losses of up to \$65.0 million with respect to the entire \$146.3 million acquired loan portfolio, and 95% of losses in excess of \$65.0 million.

The Purchase and Assumption Agreement and the Loss Share agreement have specific and detailed compliance, servicing, notification and reporting requirements. The Company has engaged a third party loan servicing vendor to administer the assets subject to this loss share arrangement, and may engage this or another vendor to provide similar services in the future if the Company engages in future FDIC-assisted transactions. As a result, the Company is, and may increasingly be dependant upon this vendor to provide key services to the Bank. While the Company carefully selected this or another vendor, the Company may not control its actions. Any failure by the vendor to comply with the terms of any loss share arrangement the Bank has with the FDIC, or to properly

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service the loans and OREO covered by any loss share arrangement, may cause individual loans or large pools of loans to lose eligibility for reimbursement to the Bank from the FDIC. This could result in material losses that are currently not anticipated and could adversely affect the Company's business or financial condition.

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

### *Decline In the Company's Stock Price Could Require a Write-down of Some Portion or All of the Company's Goodwill*

If the Company's stock price declines and remains low for an extended period of time, the Company could be required to write off all or a portion of its goodwill, which represents the value in excess of the Company's tangible book value. Such write off would reduce earnings in the period in which it is recorded. The Company's stock price is subject to market conditions that can be impacted by forces outside of the control of management, such as a perceived weakness in financial institutions in general, and may not be a direct result of the Company's performance. A write-down of goodwill could have a material adverse effect on the Company's results of operations.

### *Future Growth or Operating Results May Require the Company to Raise Additional Capital But that Capital May Not Be Available or It May Be Dilutive*

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

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

### *Any Reduction in the Company's Credit Ratings Could Increase Its Financing Costs*

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

The Company cannot give any assurance that its current credit ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant. Downgrades in the Company's credit ratings may adversely affect its borrowing costs and its ability to borrow or raise capital, and may adversely affect the Company's reputation. The Company currently is rated BBB- by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., Baa1 by Moody's Investors Service, Inc., and BBB by Fitch, Inc.

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

*The Company's Stock Price Can Be Volatile*

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

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

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

*The Trading Volume In the Company's Common Stock Is Less Than That Of Other Larger Financial Services Institutions*

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

*An Investment In the Company's Common Stock Is Not An Insured Deposit*

The Company's common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in the Company's common stock is inherently risky for the reasons described in this Risk Factors section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Company's common stock, you could lose some or all of your investment.

*The Company's Restated Certificate of Incorporation, Amended and Restated By-Laws, and Amended and Restated Rights Agreement As Well As Certain Banking Laws May Have An Anti-Takeover Effect*

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

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### *The Company May Issue Additional Securities, Which Could Dilute the Ownership Percentage of Holders of the Company's Common Stock*

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

### *The Company's Participation in the CPP May Adversely Affect the Value of Its Common Stock and the Rights of Its Common Stockholders*

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

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

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

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

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

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

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

### *The Company Has Not Established a Minimum Dividend Payment Level, and It Cannot Assure You of Its Ability to Pay Dividends in the Future*

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

In addition, the Federal Reserve has issued Federal Reserve Supervision and Regulation Letter SR-09-4, which requires bank holding companies to inform and consult with Federal Reserve supervisory staff prior to declaring

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and paying a dividend that exceeds earnings for the period for which the dividend is being paid. Under this regulation, if the Company experiences losses in a series of consecutive quarters, it may be required to inform and consult with the Federal Reserve supervisory staff prior to declaring or paying any dividends. In this event, there can be no assurance that the Company's regulators will approve the payment of such dividends.

*All of the Company's Debt Obligations and Senior Equity Securities will have Priority over the Company's Common Stock with Respect to Payment in the Event of Liquidation, Dissolution, or Winding-Up and with Respect to the Payment of Dividends*

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

*Offerings of Debt, Which Would be Senior to the Company's Common Stock upon Liquidation, and/or Preferred Equity Securities, Which may be Senior to the Company's Common Stock for Purposes of Dividend Distributions or upon Liquidation, may Adversely Affect the Market Price of the Company's Common Stock*

The Company may attempt to increase the Company's capital or, if the capital ratio of the Bank falls below the required minimums, the Company or the Bank could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including trust preferred securities, senior or subordinated notes, and preferred stock. The Company may also decide to raise additional capital by issuing debt or preferred equity securities for other reasons. Upon liquidation, holders of the Company's debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of the Company's available assets prior to the holders of the Company's common stock. Additional equity offerings may dilute the holdings of the Company's existing stockholders or reduce the market price of the Company's common stock, or both. Holders of the Company's common stock are not entitled to preemptive rights or other protections against dilution.

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

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

As of December 31, 2009, the Bank operated through 95 bank branches, one operational facility, and one dedicated lending office. Of these, 24 are leased and the remaining 73 are owned and not subject to any material

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liens. The banking offices are largely located in various communities throughout northern and central Illinois and northwestern Indiana, primarily the Chicago metropolitan suburban area. At certain Bank locations, excess space is leased to third parties. The Bank also owns 127 automated teller machines ( ATMs ), some of which are housed at banking locations and some of which are independently located. In addition, the Company owns other real property that, when considered individually or in the aggregate, is not material to the Company's financial position.

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

**ITEM 3. LEGAL PROCEEDINGS**

There are certain legal proceedings pending against the Company and its subsidiaries in the ordinary course of business at December 31, 2009. Based on presently available information, the Company believes that any liabilities arising from these proceedings would not have a material adverse effect on the consolidated financial condition of the Company.

**ITEM 4. RESERVED****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY,****RELATED STOCKHOLDER MATTERS, AND****ISSUER PURCHASES OF EQUITY SECURITIES**

The Company's common stock is traded under the symbol FMBI in the Nasdaq Global Select market tier of The Nasdaq Stock Market. As of December 31, 2009, there were approximately 11,000 stockholders. The following table sets forth the closing common stock price, dividends declared per common share, and book value per common share during each quarter of 2009 and 2008.

	2009				2008			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Market price of common stock								
High	\$ 11.50	\$ 11.64	\$ 12.00	\$ 20.25	\$ 28.97	\$ 40.09	\$ 29.36	\$ 31.98
Low	\$ 9.09	\$ 6.19	\$ 5.94	\$ 5.96	\$ 13.65	\$ 13.56	\$ 18.65	\$ 24.38
Quarter-end	\$ 10.89	\$ 11.27	\$ 7.31	\$ 8.59	\$ 19.97	\$ 24.24	\$ 18.65	\$ 27.77
Cash dividends declared per common share	\$ 0.010	\$ 0.010	\$ 0.010	\$ 0.010	\$ 0.225	\$ 0.310	\$ 0.310	\$ 0.310
Dividend yield at quarter-end <sup>(1)</sup>	0.37%	0.35%	0.55%	0.47%	4.51%	5.12%	6.65%	4.47%
Book value per common share at quarter-end	\$ 13.66	\$ 14.43	\$ 14.22	\$ 14.61	\$ 14.72	\$ 14.80	\$ 14.90	\$ 15.20

<sup>(1)</sup> Ratios are presented on an annualized basis.

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

**Table of Contents****Equity Compensation Plans**

The following table sets forth information, as of December 31, 2009, relating to equity compensation plans of the Company pursuant to which options, restricted stock, restricted stock units, or other rights to acquire shares may be granted from time to time.

Equity Compensation Plan Category	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Approved by security holders <sup>(1)</sup>	2,633,929	\$ 31.77	1,438,280
Not approved by security holders <sup>(2)</sup>	5,153	17.77	-
<b>Total</b>	<b>2,639,082</b>	<b>\$ 31.74</b>	<b>1,438,280</b>

<sup>(1)</sup> Includes all outstanding options and awards under the Company's Omnibus Stock and Incentive Plan and the Non-Employee Directors' Stock Plan (the Plans). Additional information and details about the Plans are also disclosed in Notes 1 and 18 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

<sup>(2)</sup> Represents shares underlying deferred stock units credited under the Company's Nonqualified Retirement Plan, payable on a one-for-one basis in shares of the Company's common stock.

The Nonqualified Retirement Plan (the Plan) is a defined contribution deferred compensation plan under which participants are credited with deferred compensation equal to contributions and benefits that would have accrued to the participant under the Company's tax-qualified plans, but for limitations under the Internal Revenue Code, and to amounts of salary and annual bonus that the participant has elected to defer. Participant accounts are deemed to be invested in separate investment accounts under the plan, with similar investment alternatives as those available under the Company's tax-qualified savings and profit sharing plan, including an investment account deemed invested in shares of Company common stock. The accounts are adjusted to reflect the investment return related to such deemed investments. Except for the 5,153 shares set forth in the table above, all amounts credited under the Plan are paid in cash.

**Stock Performance Graph**

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

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**Comparison of Five-Year Cumulative Total Return Among  
First Midwest, the S&P 500, and the S&P SmallCap 600 Banks <sup>(1)</sup>**

	2004	2005	2006	2007	2008	2009
First Midwest	100.00	99.42	113.04	92.61	63.50	34.79
S&P 500	100.00	104.91	121.48	128.16	80.74	102.11
S&P SmallCap 600 Banks	100.00	93.50	102.25	79.20	76.41	57.44

<sup>(1)</sup> Assumes \$100 invested on December 31, 2004 in First Midwest's Common Stock, the S&P 500, and the S&P SmallCap 600 Banks with the reinvestment of all related dividends.

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

***Issuer Purchases of Equity Securities***

No purchases were made by the Company or on its behalf, or by any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of its common stock pursuant to a repurchase program approved by the Company's Board of Directors on November 27, 2007. Up to 2.5 million shares of the Company's common stock may be repurchased, and the total remaining authorization under the program was 2,497,747 shares as of December 31, 2009. The repurchase program has no set expiration or termination date. Any repurchases are subject to limitations imposed as part of the CPP under the EESA described elsewhere in this report.

On September 25, 2009, in two separate transactions each of which was designed to be exempt from registration under Section 3(a)(9) of the Securities Act of 1933, the Company issued a total of 5,643,105 shares of newly issued common stock at a price of \$10.272 per share in exchange for approximately \$39.3 million of the outstanding principal balance of the Company's 5.85% subordinated debt and approximately \$29.5 million of the outstanding principal balance of the 6.95% trust preferred debt issued by First Midwest Capital Trust I. The proceeds from these transactions were used for general corporate purposes and no underwriter was engaged for either transaction. For additional information, see Notes 12 and 13 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

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

**ITEM 6. SELECTED FINANCIAL DATA**

Consolidated financial information reflecting a summary of the operating results and financial condition of the Company for each of the five years in the period ended December 31, 2009 is presented in the following table. This summary should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this Form 10-K. A more detailed discussion and analysis of the factors affecting the Company's financial condition and operating results is presented in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Form 10-K.

	Years ended December 31,				
	2009	2008	2007	2006	2005
<b>Operating Results (Amounts in thousands)</b>					
Interest income	\$ 341,751	\$ 409,207	\$ 476,961	\$ 476,409	\$ 366,700
Interest expense	(90,219)	(162,610)	(236,832)	(224,550)	(130,850)
Net interest income	251,532	246,597	240,129	251,859	235,850
Provision for loan losses	(215,672)	(70,254)	(7,233)	(10,229)	(8,930)
Noninterest income	92,563	89,618	111,054	99,014	77,927
Gains (losses) on securities sales, net	26,726	8,903	(746)	4,269	(3,315)
Securities impairment losses	(24,616)	(44,514)	(50,055)	-	-
Gain on FDIC-assisted transaction	13,071	-	-	-	-
Gains on early extinguishment of debt	15,258	-	-	-	-
Noninterest expense	(234,788)	(194,305)	(199,137)	(192,615)	(165,703)
Income (loss) before income tax benefit (expense)	(75,926)	36,045	94,012	152,298	135,829
Income tax benefit (expense)	50,176	13,291	(13,853)	(35,052)	(34,452)
Net (loss) income	(25,750)	49,336	80,159	117,246	101,377
Preferred dividends	(10,265)	(712)	-	-	-
Net loss (income) applicable to non-vested restricted shares	464	(142)	(65)	(57)	-
Net (loss) income applicable to common shares	\$ (35,551)	\$ 48,482	\$ 80,094	\$ 117,189	\$ 101,377
Weighted-average common shares outstanding	50,034	48,462	49,295	49,102	45,567
Weighted-average diluted common shares outstanding	50,034	48,515	49,586	49,463	45,893
<b>Per Common Share Data</b>					
Basic (loss) earnings per common share	\$ (0.71)	\$ 1.00	\$ 1.62	\$ 2.39	\$ 2.22
Diluted (loss) earnings per common share	(0.71)	1.00	1.62	2.37	2.21
Common dividends declared	0.040	1.155	1.195	1.120	1.015
Book value at year end	13.66	14.72	14.94	15.01	11.99
Market price at year end	10.89	19.97	30.60	38.68	35.06
<b>Performance Ratios</b>					
Return on average common equity	(4.84%)	6.46%	10.68%	16.86%	18.83%
Return on average assets	(0.32%)	0.60%	0.99%	1.42%	1.44%
Net interest margin - tax-equivalent	3.72%	3.61%	3.58%	3.67%	3.87%
Dividend payout ratio	(5.63%)	115.50%	73.77%	47.26%	45.93%
Average equity to average assets ratio	11.50%	9.30%	9.27%	8.42%	7.65%

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	As of December 31,				
	2009	2008	2007	2006	2005
<b>Balance Sheet Highlights (Amounts in thousands)</b>					
Total assets	\$ 7,710,672	\$ 8,528,341	\$ 8,091,518	\$ 8,441,526	\$ 7,210,151
Loans	5,203,246	5,360,063	4,963,672	5,008,944	4,306,191
Deposits	5,885,279	5,585,754	5,778,861	6,167,216	5,147,832
Subordinated debt	137,735	232,409	230,082	228,674	130,092
Long-term portion of Federal Home Loan Bank advances	147,418	736	136,064	14,660	13,519
Stockholders' equity	941,521	908,279	723,975	751,014	544,068
<b>Financial Ratios</b>					
Reserve for loan losses as a percent of loans	2.78%	1.75%	1.25%	1.25%	1.31%
Tier 1 capital to risk-weighted assets	12.18%	11.60%	9.03%	9.56%	10.72%
Total capital to risk-weighted assets	14.25%	14.36%	11.58%	12.16%	11.76%
Tier 1 leverage to average assets	10.18%	9.41%	7.46%	7.29%	8.16%
Tangible common equity to tangible assets	6.29%	5.23%	5.58%	5.62%	6.30%

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **INTRODUCTION**

The following discussion and analysis is intended to address the significant factors affecting our Consolidated Statements of Income for the years 2007 through 2009 and Consolidated Statements of Financial Condition as of December 31, 2008 and 2009. When we use the terms First Midwest, the Company, we, us, and our, we mean First Midwest Bancorp, Inc., a Delaware Corporation, and its consolidated subsidiaries. When we use the term the Bank, we are referring to our wholly-owned banking subsidiary, First Midwest Bank. The discussion is designed to provide stockholders with a comprehensive review of the operating results and financial condition and should be read in conjunction with the consolidated financial statements, accompanying notes thereto, and other financial information presented in this Form 10-K.

A condensed review of operations for the fourth quarter of 2009 is included herein in the section titled Fourth Quarter 2009 vs. 2008. The review provides an analysis of the quarterly earnings performance for the fourth quarter of 2009 compared to the same period in 2008.

Unless otherwise stated, all earnings per share data included in this section and through 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 95 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.

**Table of Contents****Table 1****Selected Financial Data**

(Dollar amounts in thousands, except per share data)

	Years ended December 31,			% Change	
	2009	2008	2007	2009-2008	2008-2007
<b>Operating Results</b>					
Interest income	\$ 341,751	\$ 409,207	\$ 476,961	(16.5)	(14.2)
Interest expense	90,219	162,610	236,832	(44.5)	(31.3)
Net interest income	251,532	246,597	240,129	2.0	2.7
Fee-based revenues	85,168	95,106	98,824	(10.4)	(3.8)
Other noninterest income	7,395	(5,488)	12,230	234.7	(144.9)
Write-down of bank-owned life insurance ( BOLI ) included in noninterest income <sup>(1)</sup>	-	10,360	-	(100.0)	-
Noninterest expense excluding losses realized on other real estate owned ( OREO ) and Federal Deposit Insurance Corporation ( FDIC ) special deposit insurance assessment <sup>(2)</sup>	(212,734)	(192,739)	(198,952)	10.4	(3.1)
<b>Pre-tax, pre-provision core operating earnings <sup>(3)</sup></b>	<b>131,361</b>	<b>153,836</b>	<b>152,231</b>	<b>(14.6)</b>	<b>1.1</b>
Provision for loan losses	(215,672)	(70,254)	(7,233)	207.0	871.3
Gains (losses) on securities sales, net	26,726	8,903	(746)	200.2	1,293.4
Securities impairment losses	(24,616)	(44,514)	(50,055)	44.7	11.1
Gain on FDIC-assisted transaction	13,071	-	-	100.0	-
Gains on early extinguishment of debt	15,258	-	-	100.0	-
Write-down of BOLI <sup>(1)</sup>	-	(10,360)	-	100.0	(100.0)
Write-downs of OREO <sup>(2)</sup>	(12,584)	(1,261)	(699)	(897.9)	(80.4)
(Losses) gains on sales of OREO, net <sup>(2)</sup>	(5,970)	(305)	514	(1,857.4)	(159.3)
FDIC special deposit insurance assessment <sup>(2)</sup>	(3,500)	-	-	(100.0)	-
(Loss) income before income tax benefit (expense)	(75,926)	36,045	94,012	(310.6)	(61.7)
Income tax benefit (expense)	50,176	13,291	(13,853)	277.5	195.9
Net (loss) income	(25,750)	49,336	80,159	(152.2)	(38.5)
Preferred dividends	(10,265)	(712)	-	(1,341.7)	(100.0)
Net loss (income) applicable to non-vested restricted shares	464	(142)	(65)	426.8	(118.5)
Net (loss) income applicable to common shares	\$ (35,551)	\$ 48,482	\$ 80,094	(173.3)	(39.5)
Diluted (loss) earnings per common share	\$ (0.71)	\$ 1.00	\$ 1.62	(171.0)	(38.3)
<b>Performance Ratios</b>					
Return on average common equity	(4.84%)	6.46%	10.68%		
Return on average assets	(0.32%)	0.60%	0.99%		
Net interest margin tax equivalent	3.72%	3.61%	3.58%		
Efficiency ratio	57.86%	53.49%	52.50%		

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- (1) For a further discussion of this write-down and the Company's investment in bank owned life insurance, see the section titled "Investment in Bank Owned Life Insurance" and Note 1 of "Notes to Consolidated Financial Statements" in Item 8 of this Form 10-K.
- (2) For a further discussion of losses realized on OREO and this industry-wide special deposit assessment, see the section titled "Noninterest Expense."
- (3) The Company's accounting and reporting policies conform to U.S. generally accepted accounting principles ( "U. S. 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.

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	December 31, 2009	December 31, 2008	Dollar Change	Percent Change
<b>Balance Sheet Highlights</b>				
Total assets	\$ 7,710,672	\$ 8,528,341	\$ (817,669)	(9.6)
Total loans	5,203,246	5,360,063	(156,817)	(2.9)
Total deposits	5,885,279	5,585,754	299,525	5.4
Transactional deposits	3,885,885	3,457,954	427,931	12.4
Loans to deposits ratio	88.4%	96.0%		
Transactional deposits to total deposits	66.0%	61.9%		
<b>Asset Quality Highlights</b>				
Non-accrual loans	\$ 244,215	\$ 127,768	\$ 116,447	91.1
90 days or more past due loans (still accruing interest)	4,079	36,999	(32,920)	(89.0)
Total non-performing loans	\$ 248,294	\$ 164,767	\$ 83,527	50.7
Restructured loans (still accruing interest)	\$ 30,553	\$ 7,344	\$ 23,209	316.0
30-89 days past due loans	\$ 37,912	\$ 116,206	\$ (78,294)	(67.4)
Reserve for loan losses as a percent of loans	2.78%	1.75%		

**2009 Compared with 2008**

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

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

Performance for 2009 reflects balanced management of our core business, credit, and capital in what has been an extremely difficult environment. Our core business benefited from solid sales, improved margins, and controlled spending. At the same time we better positioned ourselves to remediate non-performing assets and strengthened our capital position.

In the face of lower property values and resulting rising non-performing assets, we recorded higher charge-offs and significantly increased our reserve for loan losses as we worked to align our problem asset carrying values with our planned disposition strategies. During 2009, we increased our reserve for loan losses to \$144.8 million, up \$50.9 million from December 31, 2008. The reserve for loan losses represented 2.78% of total loans outstanding at December 31, 2009 compared to 1.75% at December 31, 2008. The reserve for loan losses as a percentage of non-performing loans was 58% at December 31, 2009, up from 57% at December 31, 2008.

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The provision for loan losses for 2009 was \$215.7 million compared to \$70.3 million for 2008. Net charge-offs for 2009 totaled \$164.7 million, or 3.08% of average loans, as compared to \$38.2 million, or 0.74% of average loans, for 2008. Charge-offs and provisioning during 2009 were largely influenced by the credit performance of our residential construction and land loan portfolio. This portfolio currently represents only 6.0% of total loans but accounted for 45.5% of total non-performing loans as of December 31, 2009 and 38.0% of total 2009 net charge-offs.

We believe such actions taken in 2009 better position us to work out problem loans in the future in the most expedient and economically responsible manner.

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

Outstanding loans totaled \$5.2 billion as of December 31, 2009, a decrease of 2.9% from December 31, 2008. During 2009, extensions of new credits were more than offset by paydowns, charge-offs, conversion of loans to OREO, and the securitization of \$25.7 million of real estate 1-4 family loans, which are now included in the securities available-for-sale portfolio. For a discussion of our loan portfolio and credit quality, see the section titled *Loan Portfolio and Credit Quality* elsewhere in this report.

Average core transactional deposits for 2009 were \$3.7 billion, an increase of 4.9% from \$3.6 billion for 2008. The increase from 2008 primarily reflected customers' desires to maintain more liquid, short-term deposits.

Our \$1.3 billion available-for-sale securities portfolio remains highly liquid with approximately 95% comprised of municipals, collateralized mortgage obligations, and agency pass-through securities. During 2009, we took advantage of the market to sell \$855.4 million in securities at a gain of \$26.7 million and used these sales proceeds along with cash from maturing investments to reduce our higher cost wholesale funds and improve our net interest margin. Such delevering also contributed to our improved tangible capital ratio.

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

Fee-based revenues, which comprise the majority of noninterest income, decreased for 2009 from 2008 and reflected the impact of lower transaction volumes caused by reduced consumer spending.

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

On October 23, 2009, we acquired substantially all the assets of the \$260 million former First DuPage Bank ( *First DuPage* ) in an FDIC-assisted transaction generating a gain of \$13.1 million. Loans comprise the majority of the assets acquired and are subject to a loss sharing arrangement with the FDIC whereby we are indemnified against the majority of any losses incurred related to these loans. The loans acquired from the former First DuPage Bank, including the FDIC indemnification, total \$223.2 million at December 31, 2009 and are classified and presented as Covered Assets in the Consolidated Statements of Financial Condition. These assets are excluded from the asset quality presentation and any credit-related amounts or ratios presented throughout this document, given the loss share indemnification from the FDIC. The acquisition of First DuPage enables us to expand into DuPage County and fits within our strategic growth plans.

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***2008 Compared with 2007***

Our net income was \$49.3 million for 2008 compared to \$80.2 million for 2007 and earnings of \$1.00 per diluted common share for 2008, as compared to \$1.62 per diluted common share for 2007. Return on average assets was 0.60% for 2008 compared to 0.99% for 2007. Return on average common equity was 6.46% for 2008 compared to 10.68% for 2007.

Performance for 2008 was adversely impacted by higher loan loss provisions and securities-related losses, stemming from continued economic weakness, which were partially offset by the recognition of certain nonrecurring tax benefits. Income before taxes totaled \$36.0 million for 2008, as compared to \$94.0 million for 2007, with the difference largely due to higher provision for loan losses. Provision for loan losses for 2008 was \$70.3 million as contrasted to \$7.2 million in 2007, with the increase primarily due to deterioration in our residential construction portfolio. In addition, we recognized net securities impairment losses of \$44.5 million in 2008 compared to \$50.1 million in 2007.

Average core transactional deposits for 2008 were \$3.6 billion, relatively unchanged from 2007. Our ability to fund lending activity predominantly with core customer deposits provides a long-term competitive advantage given the volatility in the cost and availability of wholesale funds.

Outstanding loans totaled \$5.4 billion as of December 31, 2008, an increase of 8.0% from December 31, 2007, with the increase due primarily to growth in the commercial real estate and commercial and industrial loan categories.

Non-accrual loans at December 31, 2008 were \$127.8 million, or 2.38% of total loans, compared to \$18.5 million, or 0.37% of total loans, at December 31, 2007, with residential construction loans accounting for \$97.1 million of the total. Loans 90 days or more past due and still accruing totaled \$37.0 million, an increase of \$15.9 million from the prior year, and other real estate owned totaled \$24.4 million, an increase of \$18.3 million from the prior year.

In 2008, in response to the impact of continuing economic weakness on real estate and related markets, we increased our reserve for loan losses to \$93.9 million as of December 31, 2008, up \$32.1 million from December 31, 2007. The reserve for loan losses represented 1.75% of total loans outstanding at December 31, 2008 compared to 1.25% at December 31, 2007. Provision for losses for 2008 totaled \$70.3 million and exceeded net charge-offs by \$32.1 million.

Net interest margin for 2008 was 3.61% compared to 3.58% for 2007 as we were able to more than offset declines in asset yields with reductions in our cost of funds.

Fee-based revenues were \$95.1 million for full year 2008, down 3.8% from 2007. Excluding certain services we discontinued in late 2007 from both years, fee-based revenues declined 1% from 2007, due primarily to lower trust revenue and lower retail sales of investment products.

Noninterest expense for 2008 declined 2.4% from 2007 due primarily to a reduction in salary and benefit costs. From 2006 to 2008, the Company reduced its staffing by 4.4%, or 83 full-time equivalents.

We recognized significant federal and state tax benefits due to favorable court rulings and results of examinations related to prior years. These benefits, coupled with the increase in tax-exempt income as a percent of total income in 2008, resulted in a net tax benefit for 2008 of \$13.3 million.

***Management's Outlook***

As we enter 2010, signs of economic recovery are emerging but remain tenuous. Furthermore, actions taken by the federal government through legislation and regulation continue to evolve.

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In what promises to again be a challenging credit environment, it is our belief that our strong core operating performance, coupled with an expanded capital base, positions us to better navigate the uncertainty of the times, meet the needs of our clients and communities, and benefit from future recovery in the market place.

**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 presented in Note 1 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

Our accounting and reporting policies conform to 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.

**Table 2**  
**Effect of Tax-Equivalent Adjustment**

(Dollar amounts in thousands)

	Years Ended December 31,			% Change	
	2009	2008	2007	2009-2008	2008-2007
Net interest income (GAAP)	\$ 251,532	\$ 246,597	\$ 240,129	2.0	2.7
Tax-equivalent adjustment	19,658	22,225	20,906	(11.6)	6.3
<b>Tax-equivalent net interest income</b>	<b>\$ 271,190</b>	<b>\$ 268,822</b>	<b>\$ 261,035</b>	<b>0.9</b>	<b>3.0</b>

Table 3 summarizes changes in our average interest-earning assets and interest-bearing liabilities over the last three years 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 4 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 3.72% for 2009, up 11 basis points from 3.61% for 2008. The yield on interest-earning assets for 2009 declined 84 basis points compared to 2008, while our cost of funds declined 106 basis points compared to 2008. As of December 31, 2009, our loan-to-deposit ratio was 88.4%, with two-thirds of our customer deposits consisting of demand, NOW, money market, and savings transactional accounts.

2009 net interest margin reflects our solid core deposit base and our ability to effectively manage our cost of funds. During the last half of 2009, we delevered our balance sheet by using proceeds from securities sales of \$855.4 million and maturities to reduce our level of borrowed funds and time deposits. Interest rates began declining in September 2007 and continued through fourth quarter 2008, resulting in a reduction in interest rates



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for both fixed and floating interest rates on our loan portfolio in 2009. During 2009 we instituted interest rate floors on a portion of our loan portfolio that moderated the overall decline in loan yields and contributed to improved margins. The decline in interest-earning asset yields was more than compensated for by a shift in funding toward less expensive transactional deposits.

During 2009, we placed loans on non-accrual status and accordingly reversed interest accrued of \$5.7 million. Excluding this adjustment, full year 2009 net interest margin would have been approximately 4.04%.

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

**Table of Contents****Table 3****Net Interest Income and Margin Analysis**

(Dollar amounts in thousands)

	2009			2008			2007		
	Average Balance	Interest	Yield/Rate (%)	Average Balance	Interest	Yield/Rate (%)	Average Balance	Interest	Yield/Rate (%)
<b>Assets:</b>									
Interest-bearing deposits with banks	\$ 6,080	\$ 13	0.21	\$ 3,399	\$ 52	1.53	\$ 7,550	\$ 383	5.07
Federal funds sold and securities purchased under agreements to resell	84,451	186	0.22	14,672	166	1.13	3,011	173	5.75
Mortgages held for sale	-	-	-	37	3	8.11	2,940	171	5.82
<b>Securities:</b>									
Trading - taxable	12,270	227	1.85	17,202	289	1.68	17,006	360	2.12
Available-for-sale - taxable	890,848	41,932	4.71	1,171,264	61,844	5.28	1,268,389	66,788	5.27
Available-for-sale - nontaxable <sup>(1)</sup>	770,380	47,895	6.22	936,933	57,344	6.12	906,905	54,755	6.04
Held-to-maturity - taxable	8,520	460	5.40	7,670	341	4.45	9,450	422	4.47
Held-to-maturity - nontaxable <sup>(1)</sup>	77,464	5,444	7.03	84,718	5,879	6.94	88,099	6,159	6.99
<b>Total securities</b>	<b>1,759,482</b>	<b>95,958</b>	<b>5.45</b>	<b>2,217,787</b>	<b>125,697</b>	<b>5.67</b>	<b>2,289,849</b>	<b>128,484</b>	<b>5.61</b>
Federal Home Loan Bank and Federal Reserve Bank stock									
	55,081	1,199	2.18	54,767	1,318	2.41	54,774	2,034	3.71
<b>Loans <sup>(1)(2)</sup>:</b>									
Commercial and industrial	1,481,501	71,509	4.83	1,435,525	85,319	5.94	1,379,007	104,968	7.61
Agricultural	129,773	5,318	4.10	176,378	8,822	5.00	166,647	11,721	7.03
Commercial real estate	3,034,192	150,753	4.97	2,775,847	165,121	5.95	2,592,170	192,003	7.41
Consumer	536,788	25,371	4.73	547,965	31,771	5.80	596,885	44,978	7.54
Real estate 1-4 family	166,725	9,683	5.81	214,164	13,163	6.15	208,770	12,952	6.20
<b>Total loans</b>	<b>5,348,979</b>	<b>262,634</b>	<b>4.91</b>	<b>5,149,879</b>	<b>304,196</b>	<b>5.91</b>	<b>4,943,479</b>	<b>366,622</b>	<b>7.42</b>
Covered assets <sup>(3)</sup>	28,049	1,419	5.06	-	-	-	-	-	-
<b>Total interest-earning assets <sup>(1)(2)</sup></b>	<b>7,282,122</b>	<b>361,409</b>	<b>4.96</b>	<b>7,440,541</b>	<b>431,432</b>	<b>5.80</b>	<b>7,301,603</b>	<b>497,867</b>	<b>6.82</b>
Cash and due from banks	119,469			136,547			152,057		
Reserve for loan losses	(127,037)			(66,378)			(62,227)		
Other assets	789,555			714,730			699,900		
<b>Total assets</b>	<b>\$ 8,064,109</b>			<b>\$ 8,225,440</b>			<b>\$ 8,091,333</b>		
<b>Liabilities and Stockholders Equity:</b>									
Savings deposits	\$ 751,386	3,024	0.40	\$ 792,524	7,148	0.90	\$ 754,009	11,844	1.57
NOW accounts	984,529	3,102	0.32	935,429	9,637	1.03	900,956	14,536	1.61
Money market deposits	937,766	9,213	0.98	787,218	13,220	1.68	859,864	28,469	3.31
<b>Total interest-bearing transactional deposits</b>	<b>2,673,681</b>	<b>15,339</b>	<b>0.57</b>	<b>2,515,171</b>	<b>30,005</b>	<b>1.19</b>	<b>2,514,829</b>	<b>54,849</b>	<b>2.18</b>
Time deposits	2,001,207	48,838	2.44	2,172,379	80,617	3.71	2,319,902	111,418	4.80
<b>Total interest-bearing deposits</b>	<b>4,674,888</b>	<b>64,177</b>	<b>1.37</b>	<b>4,687,550</b>	<b>110,622</b>	<b>2.36</b>	<b>4,834,731</b>	<b>166,267</b>	<b>3.44</b>
Borrowed funds	1,118,792	12,569	1.12	1,438,908	37,192	2.58	1,131,700	55,540	4.91
Subordinated debt	208,621	13,473	6.46	231,961	14,796	6.38	227,756	15,025	6.60

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Total interest-bearing liabilities	6,002,301	90,219	1.50	6,358,419	162,610	2.56	6,194,187	236,832	3.82
Demand deposits	1,061,208			1,043,972			1,055,251		
Other liabilities	72,927			58,318			91,784		
Stockholders equity common	734,673			750,497			750,111		
Stockholders equity preferred	193,000			14,234			-		
Total liabilities and stockholders equity	\$ 8,064,109			\$ 8,225,440			\$ 8,091,333		
Net interest income/margin <sup>(1)</sup>		\$ 271,190	3.72		\$ 268,822	3.61		\$ 261,035	3.58

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

(2) Loans on a non-accrual basis for the recognition of interest income totaled \$244.2 million as of December 31, 2009, \$127.8 million as of December 31, 2008, and \$18.4 million as of December 31, 2007 and are included in loans for purposes of this analysis.

(3) Covered interest-earning assets consist of loans acquired through an FDIC-assisted transaction. For additional discussion, please refer to the section titled Covered Assets.

**Table of Contents****Table 4****Changes in Net Interest Income Applicable to Volumes and Interest Rates <sup>(1)</sup>**

(Dollar amounts in thousands)

	2009 compared to 2008			2008 compared to 2007		
	Volume	Rate	Total	Volume	Rate	Total
Interest-bearing deposits with banks	\$ 400	\$ (439)	\$ (39)	\$ (146)	\$ (185)	\$ (331)
Federal funds sold and securities purchased under agreements to resell	24	(4)	20	(9)	2	(7)
Mortgages held for sale	(2)	(1)	(3)	(278)	110	(168)
Securities:						
Trading taxable	(95)	33	(62)	4	(75)	(71)
Available-for-sale taxable	(13,700)	(6,212)	(19,912)	(5,129)	185	(4,944)
Available-for-sale nontaxable <sup>(2)</sup>	(10,371)	922	(9,449)	1,831	758	2,589
Held-to-maturity taxable	41	78	119	(79)	(2)	(81)
Held-to-maturity nontaxable <sup>(2)</sup>	(511)	76	(435)	(235)	(45)	(280)
Total securities	(24,636)	(5,103)	(29,739)	(3,608)	821	(2,787)
Federal Home Loan Bank and Federal Reserve Bank stock	8	(127)	(119)	-	(716)	(716)
Loans <sup>(2)</sup> :						
Commercial and industrial	2,839	(16,649)	(13,810)	4,519	(24,168)	(19,649)
Agricultural	(2,081)	(1,423)	(3,504)	734	(3,633)	(2,899)
Commercial real estate	18,656	(33,024)	(14,368)	15,111	(41,993)	(26,882)
Consumer	(636)	(5,764)	(6,400)	(3,463)	(9,744)	(13,207)
Real estate 1-4 family	(2,787)	(693)	(3,480)	330	(119)	211
Total loans	15,991	(57,553)	(41,562)	17,231	(79,657)	(62,426)
Covered assets	1,419	-	1,419	-	-	-
Total interest income <sup>(2)</sup>	(6,796)	(63,227)	(70,023)	13,190	(79,625)	(66,435)
Savings deposits	(353)	(3,771)	(4,124)	640	(5,336)	(4,696)
NOW accounts	535	(7,070)	(6,535)	580	(5,479)	(4,899)
Money market deposits	3,425	(7,432)	(4,007)	(2,232)	(13,017)	(15,249)
Total interest-bearing transactional deposits	3,607	(18,273)	(14,666)	(1,012)	(23,832)	(24,844)
Time deposits	(5,945)	(25,834)	(31,779)	(6,733)	(24,068)	(30,801)
Total interest-bearing deposits	(2,338)	(44,107)	(46,445)	(7,745)	(47,900)	(55,645)
Borrowed funds	(6,953)	(17,670)	(24,623)	24,673	(43,021)	(18,348)
Subordinated debt	(1,510)	187	(1,323)	288	(517)	(229)
Total interest expense	(10,801)	(61,590)	(72,391)	17,216	(91,438)	(74,222)
Net interest income <sup>(2)</sup>	\$ 4,005	\$ (1,637)	\$ 2,368	\$ (4,026)	\$ 11,813	\$ 7,787

<sup>(1)</sup>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.

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

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As shown in Table 4, 2009 tax-equivalent net interest income increased \$2.4 million compared to 2008 following an increase of \$7.8 million from 2007 to 2008. This was the result of a decrease in interest expense more than offsetting a decrease in interest income.

As shown in Table 4, tax equivalent interest income declined \$70.0 million for 2009 compared to 2008. The decrease in interest-earning assets reduced interest income by \$6.8 million, while a decline in the average rate earned on interest-earning assets reduced interest income by \$63.2 million. Interest expense for 2009 declined \$72.4 million compared to 2008. The decrease in interest-bearing liabilities reduced interest expense by \$10.8 million, but the shift from time deposits to less expensive wholesale borrowing, coupled with an overall decrease in the average rate paid on interest-bearing liabilities reduced interest expense by \$61.6 million.

Tax equivalent interest income declined \$66.4 million for 2008 compared to 2007. The increase in interest-earning assets increased interest income by \$13.2 million, while a decline in the average rate earned on interest-earning assets reduced interest income by \$79.6 million. Interest expense for 2008 declined \$74.2 million compared to 2007. The increase in interest-bearing liabilities increased interest expense by \$17.2 million, but the shift from time deposits to less expensive wholesale borrowing, coupled with an overall decrease in the average rate paid on interest-bearing liabilities reduced interest expense by \$91.4 million.

Our net interest margin performance in 2010 will depend, to a large extent, on stability of interest rates and our ability to maintain transactional deposits at our current cost of funds and may be adversely impacted by the level of loans placed on non-accrual.

**Table of Contents****Noninterest Income****Table 5****Noninterest Income Analysis**

(Dollar amounts in thousands)

	Years ended December 31,			% Change	
	2009	2008	2007	2009-2008	2008-2007
Service charges on deposit accounts	\$ 38,754	\$ 44,987	\$ 45,015	(13.9)	(0.1)
Trust and investment advisory fees	14,059	15,130	15,701	(7.1)	(3.6)
Other service charges, commissions, and fees	16,529	18,846	22,183	(12.3)	(15.0)
Card-based fees <sup>(1)</sup>	15,826	16,143	15,925	(2.0)	1.4
Subtotal fee-based revenues	85,168	95,106	98,824	(10.4)	(3.8)
Bank owned life insurance ( BOLI <sup>(2)</sup> )	2,263	(2,369)	8,033	(195.5)	(129.5)
Other income <sup>(3)</sup>	2,590	2,819	3,078	(8.1)	(8.4)
Subtotal recurring noninterest income	90,021	95,556	109,935	(5.8)	(13.1)
Trading gains (losses), net <sup>(4)</sup>	2,542	(5,938)	1,119	(142.8)	(630.7)
Gains (losses) on securities sales, net	26,726	8,903	(746)	200.2	(1,293.4)
Securities impairment losses	(24,616)	(44,514)	(50,055)	(44.7)	(11.1)
Gain on FDIC-assisted transaction	13,071	-	-	100.0	-
Gains on early extinguishment of debt	15,258	-	-	100.0	-
Total noninterest income	\$ 123,002	\$ 54,007	\$ 60,253	127.8	(10.4)

<sup>(1)</sup> Card-based fees consist of debit and credit card interchange fees charged for processing signature-based transactions as well as various fees charged on both customer and non-customer automated teller machine ( ATM ) and point-of-sale transactions processed through the ATM and point-of-sale networks.

<sup>(2)</sup> BOLI income represents benefit payments received and the change in cash surrender value ( CSV ) of the policies, net of any premiums paid. The change in CSV is attributable to earnings or losses credited to the policies, based on investments made by the insurer. For a further discussion of our investment in BOLI, see the section Investment in Bank Owned Life Insurance and Note 1 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

<sup>(3)</sup> Other income consists of various items including safe deposit box rentals, miscellaneous recoveries, and gains on the sales of various assets.

<sup>(4)</sup> Trading (losses) gains result from the change in fair value of trading securities. Our trading securities represent diversified investment securities held in a grantor trust under deferred compensation arrangements in which plan participants may direct amounts earned to be invested in securities other than Company stock. Such change is substantially offset by an adjustment to salaries and benefits expense.

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

Fee-based revenues, which comprise the majority of noninterest income, decreased 10.4% for 2009 from 2008. This decrease reflects the impact of lower transaction volumes caused by reduced consumer spending. All major fee categories decreased from 2008.

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

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



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

Fee-based revenues were \$95.1 million for 2008, down 3.8% from 2007. In fourth quarter 2007, we ceased originating traditional residential mortgages, and in first quarter 2008, we began to maintain cashier check balances in-house rather than outsource the service in exchange for a fee. If both were excluded from the 2007 amount, fee-based revenues for 2008 would have declined 1.0% from 2007, primarily due to lower trust revenue and retail sales of investment products.

Other service charges, commissions, and fees declined 15.0% for 2008 compared to 2007 due to ceasing origination of traditional residential mortgages and formerly outsourced cashier check balances. Further contributing to the decrease were declines in commissions received from the sale of third-party annuity and investment products of \$517,000 from 2007 to 2008. Card-based fees increased 1.4% for 2008 from 2007, with most of the increase related to higher usage.

2008 was the first year in which we reported a loss on BOLI. In 2008, we received \$2.7 million of death benefit payments compared to \$877,000 in 2007. However, this was more than offset by a decrease in the CSV of the underlying policies. During fourth quarter 2008, the fair value of investments underlying a separate account with a CSV of \$114.8 million declined below 80% of book value. We transferred the underlying investments to a short-duration, lower yielding money market account and recognized a charge against income for \$2.9 million. In order to obtain the flexibility to invest these assets in the future into higher yielding investments, we reduced the cash surrender value by an additional \$7.5 million at December 31, 2008, so that the fair value of the investments was 86.6% of book value.

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

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

**Table of Contents****Noninterest Expense****Table 6****Noninterest Expense Analysis**

(Dollar amounts in thousands)

	Years ended December 31,			% Change	
	2009	2008	2007	2009-2008	2008-2007
<b>Compensation expense:</b>					
Salaries and wages	\$ 82,640	\$ 77,074	\$ 85,707	7.2	(10.1)
Retirement and other employee benefits	23,908	22,836	25,891	4.7	(11.8)
<b>Total compensation expense</b>	<b>106,548</b>	<b>99,910</b>	<b>111,598</b>	<b>6.6</b>	<b>(10.5)</b>
<b>Other real estate owned ( OREO ) expense:</b>					
Write-downs of OREO properties	12,584	1,261	699	897.9	80.4
Losses (gains) on the sales of OREO, net	5,970	305	(514)	1,857.4	(159.3)
OREO operating expense, net <sup>(1)</sup>	4,905	1,843	787	166.1	134.2
<b>Total OREO expense</b>	<b>23,459</b>	<b>3,409</b>	<b>972</b>	<b>588.1</b>	<b>250.7</b>
FDIC insurance premiums	13,673	1,065	747	1,183.8	42.6
Net occupancy expense	22,762	23,378	22,054	(2.6)	6.0
Loan remediation costs	4,685	888	843	427.6	5.3
Other professional services	11,111	10,010	8,191	11.0	22.2
Equipment expense	8,962	9,956	10,540	(10.0)	(5.5)
Technology and related costs	8,987	7,429	7,084	21.0	4.9
Advertising and promotions	7,313	6,491	6,293	12.7	3.1
Merchant card expense	6,453	6,985	6,830	(7.6)	2.3
Other expenses	20,835	24,784	23,985	(15.9)	3.3
<b>Total noninterest expense</b>	<b>\$ 234,788</b>	<b>\$ 194,305</b>	<b>\$ 199,137</b>	<b>20.8</b>	<b>(2.4)</b>
Average full-time equivalent ( FTE ) employees	1,766	1,824	1,881		
<b>Efficiency ratio <sup>(2)</sup></b>	<b>57.86%</b>	<b>53.49%</b>	<b>52.50%</b>		

<sup>(1)</sup> OREO operating expense, net, consists of real estate taxes, insurance, and maintenance, net of any rental income.

<sup>(2)</sup> The efficiency ratio expresses noninterest expense as a percentage of tax-equivalent net interest income plus total fees and other income.

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

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 fourth quarter 2009, the FDIC required all financial institutions to prepay their next three years' deposit premiums. As of December 31, 2009, we had \$34.7 million in prepaid FDIC

assessments. This prepayment will be expensed as we incur FDIC insurance premiums in future periods.

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Salaries and wages increased in 2009 compared to 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 4.7% increase in retirement and other employee benefits for 2009 compared to 2008 resulted from an increase in pension plan expense.

The 21.0% increase in technology and related costs from 2008 to 2009 was due to an 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.

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

Noninterest expense was \$194.3 million for 2008, down 2.4% from 2007. The decline was primarily due to reductions in salaries and benefits costs.

Salaries and wages decreased in 2008 compared to 2007. In late 2007 and continuing into 2008, we initiated targeted staff reductions, primarily in the support and administrative areas. Full time employees have declined over this period by 4.4%, or 83 full-time equivalents. These reductions, coupled with a \$7.3 million decline in the obligation due to participants under deferred compensation plans, more than offset annual general merit increases and an increase in share-based compensation expense.

The increase in occupancy expense from 2007 to 2008 resulted from typical increases in real estate taxes, repairs and maintenance, utilities, and depreciation. The \$345,000 increase in technology expense from 2007 to 2008 was due to standard contractual increases.

The increase in professional services was due primarily to a short-term contract with an outside consultant for revenue and process enhancement services.

**Income Taxes**

Our provision for income taxes includes both federal and state income tax expense. An analysis of the provision for income taxes and the effective income tax rates for the periods 2007 through 2009 are detailed in the following table.

**Table 7****Income Tax Expense Analysis**

(Dollar amounts in thousands)

	Years ended December 31,		
	2009	2008	2007
(Loss) income before income tax (benefit) expense	\$ (75,926)	\$ 36,045	\$ 94,012
Income tax (benefit) expense:			
Federal income tax (benefit) expense	\$ (39,106)	\$ (2,349)	\$ 15,979
State income tax (benefit) expense	(11,070)	(10,942)	(2,126)
Income tax (benefit) expense	\$ (50,176)	\$ (13,291)	\$ 13,853
Effective income tax rate	N/M	(36.9%)	14.7%
Federal effective income tax rate	N/M	(6.5%)	16.2%
State effective income tax rate, net of federal tax effect	N/M	(30.4%)	(1.5%)

N/M Not meaningful.



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

Income tax benefits totaled \$50.2 million in 2009 and \$13.3 million in 2008. We recorded \$13.9 million in tax expense in 2007. The increase in income tax benefits from 2008 to 2009 was primarily attributable to a decrease in pre-tax income in 2009, coupled with an increase in tax-exempt interest as a percent of total pre-tax income. This effect was offset in part by a decrease in state tax-exempt income attributable to changes in Illinois tax law effective in 2009.

The decrease in income tax expense from 2007 to 2008 was primarily attributable to a decrease in pre-tax income in 2008, and to a lesser extent, to the recording of state tax benefits relating uncertain tax positions. This was offset in part by a decrease in BOLI income in 2008.

Our accounting policies underlying the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Notes 1 and 16 to the Consolidated Financial Statements in Item 8 of this Form 10-K. Income tax expense and benefits recorded due to changes in uncertain tax positions are also described in Note 16.

**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.

**Table 8****Investment Portfolio Valuation Summary**

(Dollar amounts in thousands)

	As of December 31, 2009			As of December 31, 2008			As of December 31, 2007		
	Fair Value	Amortized Cost	% of Total	Fair Value	Amortized Cost	% of Total	Fair Value	Amortized Cost	% of Total
<b>Available-for-Sale</b>									
U.S. Treasury securities	\$ -	\$ -	-	\$ 1,041	\$ 1,039	0.1	\$ 1,028	\$ 1,027	-
U.S. Agency securities	756	756	-	-	-	-	42,492	41,895	1.9
Collateralized mortgage obligations	307,921	299,920	21.8	698,839	694,285	30.1	534,800	534,688	24.5
Other mortgage-backed securities	249,282	239,567	17.5	518,265	504,918	21.9	420,320	417,532	19.1
State and municipal securities	651,680	649,269	47.3	906,747	907,036	39.4	966,835	961,638	44.0
Collateralized debt obligations	11,728	54,359	4.0	42,086	60,406	2.6	81,630	95,584	4.4
Corporate debt securities	37,551	36,571	2.7	33,325	35,731	1.5	7,688	10,000	0.5
Equity securities	7,842	7,667	0.6	15,883	16,089	0.7	25,253	25,295	1.1
Total available-for-sale	1,266,760	1,288,109	93.9	2,216,186	2,219,504	96.3	2,080,046	2,087,659	95.5
<b>Held-to-Maturity</b>									
State and municipal securities	84,496	84,182	6.1	84,592	84,306	3.7	97,931	97,671	4.5
Total securities	\$ 1,351,256	\$ 1,372,291	100.0	\$ 2,300,778	\$ 2,303,810	100.0	\$ 2,177,977	\$ 2,185,330	100.0



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	As of December 31, 2009			As of December 31, 2008		
	Effective Duration <sup>(1)</sup>	Average Life <sup>(2)</sup>	Yield to Maturity	Effective Duration <sup>(1)</sup>	Average Life <sup>(2)</sup>	Yield to Maturity
<b>Available-for-Sale</b>						
U.S. Treasury securities	-	-	-	1.35%	1.50	0.89%
U.S. Agency securities	1.29%	1.40	0.78%	-	-	-
Collateralized mortgage obligations	1.96%	2.44	5.02%	1.25%	1.80	5.25%
Other mortgage-backed securities	2.64%	3.69	4.95%	1.75%	1.95	5.52%
State and municipal securities	5.43%	7.12	6.17%	5.26%	7.61	6.15%
Collateralized debt obligations	0.25%	8.27	0.00%	0.25%	5.84	3.26%
Other securities	5.80%	11.94	5.28%	6.03%	12.61	5.06%
<b>Total available-for-sale</b>	<b>3.88%</b>	<b>5.57</b>	<b>5.38%</b>	<b>3.07%</b>	<b>4.51</b>	<b>5.62%</b>
<b>Held-to-Maturity</b>						
State and municipal securities	6.28%	8.51	6.88%	7.00%	9.26	7.10%
<b>Total securities</b>	<b>4.03%</b>	<b>5.75</b>	<b>5.47%</b>	<b>3.21%</b>	<b>4.69</b>	<b>5.67%</b>

(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 paydowns, as the weighting factor.

Held-to-maturity securities, which we have the positive intent and ability to hold until maturity, are accounted for using historical cost, adjusted for amortization of premium and accretion of discount. Trading securities are carried at fair value, with unrealized gains and losses recorded in other noninterest income. All other securities are classified as securities available-for-sale and are carried at fair value. 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.

Unrealized gains and losses on the securities available-for-sale represent the difference between the aggregate cost and fair value of the portfolio and are reported, on an after-tax basis, as a separate component of stockholders' equity in accumulated other comprehensive income. This balance sheet component will fluctuate as current market interest rates and conditions change, thereby affecting the aggregate fair value of the portfolio.

As of December 31, 2009, our securities portfolio totaled \$1.4 billion, decreasing 41.3% from December 31, 2008, as we took advantage of opportunities in the market to sell securities at a net gain. During 2009, we sold \$855.4 million of mortgage-backed, municipal, and other securities that generated \$26.7 million of gains. These gains were partly offset by other-than-temporary impairment charges of \$24.6 million primarily related to our trust preferred collateralized debt obligations (CDOs).

After recognizing these impairments, our remaining CDOs consist of seven trust-preferred pooled debt securities with an amortized cost of \$54.3 million and a fair value of \$11.7 million as of December 31, 2009. The unrealized loss on these securities as of December 31, 2009 of \$42.6 million reflects the difference between amortized cost and fair value that we determined did not relate to credit, and reflects the market's temporary bias towards these investments. Our investments in trust preferred CDOs are supported by the credit of the underlying banks and insurance companies. The \$5.8 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.

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Based on our cash flow modeling of these investments, we currently project no further change in our net cash flows from these seven CDOs, 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 24 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

Investments in state and local municipalities comprised 47.3% of the total available-for-sale securities portfolio. This type of security has historically experienced very low default rates and provided a predictable cash flow since it generally is not subject to significant prepayment. Almost our entire portfolio in this category carries third-party bond insurance or other credit enhancement. The majority are general obligations of state and local municipalities.

As of December 31, 2009 gross unrealized gains in the state and municipal securities portfolio totaled \$8.5 million, and gross unrealized losses totaled \$6.1 million, resulting in a net unrealized gain of \$2.4 million at December 31, 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 of these fixed-rate investments. The \$6.1 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.

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. We do not believe any individual unrealized loss on these types of securities as of December 31, 2009 represents an other-than-temporary impairment, since the unrealized losses associated with these securities are not believed to be attributable to credit quality, but rather to changes in interest rates and temporary market movements.

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.

We recognized non-cash impairment charges totaling \$44.5 million in 2008. Of these impairment charges, \$10.1 million related to six asset-backed CDOs. We had previously recognized a \$50.1 million impairment during 2007 regarding these assets. The fair value of these specific asset-backed CDOs was zero at December 31, 2008 and 2009. Of the remaining 2008 non-cash impairment charge of \$34.5 million, \$24.8 million related to three trust-preferred CDOs with an aggregate cost of \$38.9 million.

Effective January 1, 2009, we adopted new accounting guidance related to the recognition of other-than-temporary impairment. The effect of the adoption was to reverse \$18.5 million of the \$24.8 million in 2008 impairment charges on the trust-preferred CDOs on January 1, 2009 as an adjustment to retained earnings. As a result of the guidance, we only recognized the credit portion of unrealized losses on other-than-temporarily impaired securities in earnings and the remaining portion in other comprehensive income. In 2009, this resulted in \$42.6 million in unrealized losses being reported in other comprehensive income, which would have been required to be recorded in earnings under prior guidance. For additional information regarding this new accounting guidance, please refer to Notes 2 and 4 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

In 2008, we also recorded a \$9.7 million non-cash impairment charge related to two whole loan mortgage-backed securities with a combined par value of \$16.6 million and a single Sallie Mae debt issuance with a par value of \$10.0 million. The two whole loan mortgage-backed securities are included with Collateralized mortgage obligations in the table above and the Sallie Mae debt issuance is included in corporate debt securities.

The effective duration of the available-for-sale portfolio increased to 3.88% as of December 31, 2009 from 3.07% as of December 31, 2008. The rise in effective duration from December 31, 2008 to December 31, 2009 was the result of rising interest rates during 2009.

**Table of Contents****Table 9****Repricing Distribution and Portfolio Yields**

(Dollar amounts in thousands)

	As of December 31, 2009							
	One Year or Less		One Year to Five Years		Five Years to Ten Years		After 10 years	
	Amortized Cost	Yield to Maturity <sup>(1)</sup>	Amortized Cost	Yield to Maturity <sup>(1)</sup>	Amortized Cost	Yield to Maturity <sup>(1)</sup>	Amortized Cost	Yield to Maturity <sup>(1)</sup>
<b>Available-for-Sale</b>								
U.S. Agency securities	\$ -	-	\$ 756	0.78%	\$ -	-	\$ -	-
Collateralized mortgage obligations <sup>(2)</sup>	83,676	5.09%	174,887	4.97%	38,169	5.03%	3,188	5.94%
Other mortgage-backed securities <sup>(2)</sup>	88,854	4.56%	91,962	5.11%	39,271	5.20%	19,480	5.46%
State and municipal securities <sup>(3)</sup>	14,809	6.79%	85,159	6.24%	233,998	6.14%	315,303	6.14%
Collateralized debt obligations	-	-	-	-	-	-	54,359	3.26%
Other securities <sup>(4)</sup>	5,955	1.20%	2,220	6.36%	22,792	6.36%	13,271	5.10%
<b>Total available-for-sale</b>	<b>193,294</b>	<b>4.86%</b>	<b>354,984</b>	<b>5.31%</b>	<b>334,230</b>	<b>5.92%</b>	<b>405,601</b>	<b>5.69%</b>
<b>Held-to-Maturity</b>								
State and municipal securities <sup>(3)</sup>	17,617	7.41%	21,174	6.36%	14,935	6.74%	30,456	6.99%
<b>Total securities</b>	<b>\$ 210,911</b>	<b>5.07%</b>	<b>\$ 376,158</b>	<b>5.37%</b>	<b>\$ 349,165</b>	<b>5.95%</b>	<b>\$ 436,057</b>	<b>5.78%</b>

<sup>(1)</sup> Based on amortized cost.<sup>(2)</sup> The repricing distributions and yields to maturity of mortgage-backed securities are based on estimated future cash flows and prepayments. Actual repricings and yields of the securities may differ from those reflected in the table depending upon actual interest rates and prepayment speeds.<sup>(3)</sup> Yields on state and municipal securities are reflected on a tax-equivalent basis, assuming a federal income tax rate of 35%. The maturity date of state and municipal bonds is based on contractual maturity, unless the bond, based on current market prices, is deemed to have a high probability that the call will be exercised, in which case the call date is used as the maturity date.<sup>(4)</sup> Yields on other securities are reflected on a tax-equivalent basis, assuming a federal income tax rate of 35%. The maturity of FHLB and FRB stocks is based on management's judgment of repricing characteristics or final maturity. The maturity date of other securities is based on contractual maturity or repricing characteristics.**COVERED ASSETS**

On October 23, 2009, we acquired substantially all the assets of the \$260 million former First DuPage Bank ( First DuPage ) in an FDIC-assisted transaction generating a bargain-purchase gain of \$13.1 million. Loans comprise the majority of the assets acquired and are subject to a loss sharing arrangement with the FDIC whereby we are indemnified against the majority of any losses incurred related to these loans. The loans acquired from the former First DuPage Bank, including the FDIC indemnification, total \$223.2 million at December 31, 2009 and are classified and presented as covered assets in the Consolidated Statements of Financial Condition. These assets are excluded from the asset quality presentation, given the loss share indemnification from the FDIC. A break down of the covered assets is as follows.

**Table 10****Covered Assets**

(Dollar amounts in thousands)

December 31,  
2009

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Loans	\$	146,319
Other real estate owned		8,981
FDIC loss share receivable		67,945
	\$	223,245

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**LOAN PORTFOLIO AND CREDIT QUALITY**

Our principal source of revenue arises from lending activities, primarily composed of interest income and, to a lesser extent, from loan origination and commitment fees (net of related costs). The accounting policies underlying the recording of loans in the Consolidated Statements of Financial Condition and the recognition and/or deferral of interest income and fees (net of costs) arising from lending activities are included in Note 1 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

*Portfolio Composition*

Our loan portfolio is comprised of both corporate and consumer loans, with corporate loans representing 87.2% of total loans outstanding. The corporate loan component represents commercial and industrial, agricultural, commercial real estate, and real estate construction lending categories. Approximately \$241.3 million, or 5.3% of corporate loans, consist of loans to small businesses. Consistent with our emphasis on relationship banking, the majority of our loans are made to our core, multi-relationship customers. The customers usually maintain deposit relationships and utilize other Company banking services, such as cash management or trust services.

We seek to balance our corporate loan portfolio among loan categories as well as by industry segment, subject to internal policy limits and as influenced by market and economic conditions and maintain a diversified portfolio of both corporate and consumer loans to minimize our exposure to any particular industry or any segment of the economy. We do not offer any sub-prime products, and we seek to limit our exposure to any single borrower. Although our legal lending limit is \$209.1 million, the largest loan balance to a single borrower at December 31, 2009 was \$33.1 million, and only 49 borrowers had aggregate outstanding loan balances in excess of \$10 million.

In terms of overall commitments to extend credit, our largest aggregate exposure to a single borrower as of December 31, 2009 was \$33.1 million. We also have exposure of \$47.8 million to a group of related companies comprising a single relationship. We had only 28 credits in the portfolio where total commitments to a single borrower relationship exceeded \$20.0 million as of December 31, 2009.

**Table of Contents****Table 11****Loan Portfolio <sup>(1)</sup>**

(Dollar amounts in thousands)

	As of December 31,									
	2009	% of Total	2008	% of Total	2007	% of Total	2006	% of Total	2005	% of Total
Commercial and industrial	\$ 1,438,063	27.6	\$ 1,490,101	27.8	\$ 1,347,481	27.1	\$ 1,413,263	28.2	\$ 1,161,660	27.0
Agricultural	209,945	4.0	216,814	4.1	235,498	4.8	213,730	4.3	192,560	4.5
Commercial real estate:										
Office	394,228	7.6	339,912	6.3	256,211	5.2	232,941	4.7	239,886	5.6
Retail	331,803	6.4	265,568	5.0	193,581	3.9	192,247	3.8	165,611	3.8
Industrial	486,934	9.3	419,761	7.8	374,286	7.5	364,020	7.3	288,871	6.7
Total office, retail, and industrial	1,212,965	23.3	1,025,241	19.1	824,078	16.6	789,208	15.8	694,368	16.1
Residential construction	313,919	6.0	509,059	9.5	505,194	10.2	451,186	9.0	319,842	7.4
Commercial construction	134,680	2.6	258,253	4.8	244,904	4.9	218,027	4.3	93,443	2.2
Commercial land	96,838	1.9	98,322	1.8	143,289	2.9	144,146	2.9	209,859	4.9
Total construction	545,437	10.5	865,634	16.1	893,387	18.0	813,359	16.2	623,144	14.5
Multi-family	333,961	6.4	286,963	5.4	217,266	4.4	303,720	6.1	330,189	7.7
Investor-owned rental property	119,132	2.3	131,635	2.4	128,739	2.6	106,949	2.1	90,436	2.1
Other commercial real estate	679,851	13.1	597,694	11.2	532,741	10.7	501,475	10.0	343,287	7.9
Total commercial real estate	2,891,346	55.6	2,907,167	54.2	2,596,211	52.3	2,514,711	50.2	2,081,424	48.3
Subtotal corporate loans	4,539,354	87.2	4,614,082	86.1	4,179,190	84.2	4,141,704	82.7	3,435,644	79.8
Direct installment	47,782	0.9	58,135	1.1	65,660	1.3	78,049	1.5	65,449	1.5
Home equity	470,523	9.1	477,105	8.9	464,981	9.4	495,079	9.9	504,593	11.7
Indirect installment	5,604	0.1	12,544	0.2	33,100	0.7	78,648	1.6	157,219	3.7
Real estate 1-4 family	139,983	2.7	198,197	3.7	220,741	4.4	215,464	4.3	143,286	3.3
Subtotal consumer loans	663,892	12.8	745,981	13.9	784,482	15.8	867,240	17.3	870,547	20.2
Total	\$ 5,203,246	100.0	\$ 5,360,063	100.0	\$ 4,963,672	100.0	\$ 5,008,944	100.0	\$ 4,306,191	100.0
Growth vs. prior year end	(2.9%)		8.0%		(0.9%)		16.3%		4.1%	

<sup>(1)</sup> Excludes \$146.3 million in covered loans. For a discussion of these covered loans, refer to Note 3 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

Outstanding loans totaled \$5.2 billion as of December 31, 2009, a decrease of 2.9% from December 31, 2008. During 2009, extensions of new credit was more than offset by paydowns, net charge-offs, conversion of loans to OREO, and the securitization of \$25.7 million of 1-4 family real estate loans, which are now included in the securities available-for-sale portfolio.

Outstanding loans increased 8.0% from December 31, 2007 to December 31, 2008. The increase was led by growth in commercial real estate, specifically office, retail, and industrial, and commercial and industrial lending. The decline in consumer loans was primarily due to continued run-off of indirect loans and the paydown in traditional home mortgages.

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The decline in our total loans outstanding from December 31, 2006 to December 31, 2007 reflected the combined impact of the payoff of loan participations, rapid prepayment of multi-family loan portfolios, which occurred primarily in the first half of 2007, and the continued paydown of our indirect auto loan portfolio. As of the same dates, corporate loans remained relatively unchanged at \$4.2 billion.

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The \$702.8 million increase in total loans outstanding from December 31, 2005 to December 31, 2006 was largely due to the acquisition of Bank Calumet during 2006.

***Loan Origination/Risk Management***

We have certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and modifies these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. As part of the underwriting process, we examine current and projected cash flows to determine the ability of the borrower to repay his obligation as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of the borrower, however, may not be as expected, and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and usually incorporate a personal guarantee. However, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent upon the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those standards and processes specific to real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent upon the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. As detailed in the discussion of real estate loans below, the properties securing our commercial real estate portfolio are diverse in terms of type and geographic location within the greater suburban metropolitan Chicago market and contiguous markets. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. We also utilize third-party experts to provide insight and guidance about economic conditions and trends affecting the residential real estate market within the greater suburban metropolitan Chicago area and contiguous markets. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. Owner-occupied loans are generally considered to have less risk.

With respect to loans to developers and builders that are secured by non-owner occupied properties, we require the borrower to have had a proven record of success. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the completed project. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent upon the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, demand and supply of alternative real estate, the availability of long-term financing, and changes in general economic conditions.

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We originate consumer loans utilizing a computer-based credit scoring analysis to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to strict loan-to-value management, key affordability ratios, risk-based pricing strategies, risk-based collection remedies, and documentation requirements.

**Commercial and Industrial Loans**

Commercial and industrial loans represent 27.6% of all loans and decreased \$52.0 million, or 3.5%, from \$1.49 billion at December 31, 2008 to \$1.44 billion at December 31, 2009. Our commercial and industrial loans are a diverse group of loans to small, medium, and large businesses. The purpose of these loans varies from supporting seasonal working capital needs to term financing of equipment. While some short-term loans may be made on an unsecured basis, most are secured by the assets being financed with collateral margins that are consistent with our loan policy guidelines and have guarantees.

**Commercial Real Estate Loans**

Commercial real estate loans represent 55.6% of all loans and totaled \$2.89 billion at December 31, 2009, a decrease of \$15.8 million, or 0.5%, from December 31, 2008. Commercial real estate loans consist of (i) loans for industrial buildings, office buildings, and retail shopping centers; (ii) residential construction loans primarily for single-family and multi-family residential projects that are substantially all located in the suburban metropolitan Chicago market and contiguous area; and (iii) loans for various types of other commercial properties, such as land for future commercial development, multi-unit residential mortgages, and hotels.

Other commercial real estate totaled \$679.9 million as of December 31, 2009. The following table summarizes this line item by product type and presents the diversity within the portfolio.

**Table 12****Other Commercial Real Estate Loan Detail by Product Type**

(Dollar amounts in thousands)

	2009		As of December 31, 2008		2007	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Service stations and truck stops	\$ 146,887	21.6	\$ 137,448	23.0	\$ 81,382	15.3
Warehouses and storage	108,039	15.9	82,860	13.9	57,404	10.8
Hotels	76,815	11.3	74,611	12.5	49,850	9.3
Restaurants	55,262	8.1	47,755	8.0	42,675	8.0
Medical	39,158	5.8	34,359	5.7	6,221	1.2
Automobile dealers	39,846	5.9	37,883	6.3	27,318	5.1
Mobile home parks	19,367	2.8	36,790	6.2	22,106	4.1
Recreational	13,344	2.0	14,515	2.4	14,787	2.8
Religious	14,652	2.1	11,224	1.9	9,924	1.9
Other <sup>(1)</sup>	166,481	24.5	120,249	20.1	221,074	41.5
<b>Total other commercial real estate</b>	<b>\$ 679,851</b>	<b>100.0</b>	<b>\$ 597,694</b>	<b>100.0</b>	<b>\$ 532,741</b>	<b>100.0</b>

<sup>(1)</sup> Certain loans presented here as of December 31, 2007 were subsequently redistributed to more appropriate categories as of December 31, 2008.



**Table of Contents****Consumer Loans**

As of December 31, 2009, consumer loans represented 12.8% of total outstanding loans compared to 13.9% as of December 31, 2008 and 15.8% as of December 31, 2007.

The home equity category, consisting mainly of revolving lines of credit secured by junior liens on owner-occupied real estate, totaled \$470.5 million and represented 70.9% of the consumer portfolio. Consumer mortgages totaled \$140.0 million and represented 21.1% of the consumer portfolio. Loan-to-value ratios based on the collateral value at origination for these credits generally range from 50% to 80%.

Consumer loans are centrally underwritten utilizing the Fair Isaac Corporation ( FICO ) credit scoring. This is a credit score developed by Fair Isaac Corporation that is used by many mortgage lenders. It uses a risk-based system to determine the probability that a borrower may default on financial obligations to the mortgage lender. FICO scores range from 300 to 850. Home equity and real estate 1-4 family loans were rescored during fourth quarter 2009. Home equity loans carry an average FICO credit score of 749 and a median score of 776, with approximately 90% carrying a score of 650 or above. Real estate 1-4 family loans carry an average FICO credit score of 727 and a median score of 743, with approximately 87% carrying a score of 650 or above.

**Maturity and Interest Rate Sensitivity of Corporate Loans**

The following table summarizes the maturity distribution of our corporate loan portfolio as of December 31, 2009 as well as the interest rate sensitivity of loans in these categories that have maturities in excess of one year.

**Table 13****Maturities and Sensitivities of Corporate Loans to Changes in Interest Rates**

(Dollar amounts in thousands)

	As of December 31, 2009				Total
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years		
Commercial, industrial, and agricultural	\$ 974,172	\$ 572,353	\$ 101,483	\$	\$ 1,648,008
Commercial real estate	1,046,101	1,695,993	149,252		2,891,346
<b>Total</b>	<b>\$ 2,020,273</b>	<b>\$ 2,268,346</b>	<b>\$ 250,735</b>	<b>\$</b>	<b>\$ 4,539,354</b>
Loans maturing after one year:					
Predetermined (fixed) interest rates		\$ 2,022,346	\$ 195,405		
Floating interest rates		246,000	55,330		
<b>Total</b>		<b>\$ 2,268,346</b>	<b>\$ 250,735</b>		

In early 2009, we implemented interest rate floors on approximately \$1.6 billion in floating rate loans. The floors effectively increased the rate earned on the floating rate loans despite flat to declining prime and Libor market rates. As market rates rise in future periods, the loans will reprice, and the effect will narrow over time. The result is an increase in sensitivity to rising interest rates. For additional discussion of interest rate sensitivity, refer to Item 7A, Quantitative and Qualitative Disclosures about Market Risk, of this Form 10-K.

**Non-Performing Assets and Potential Problem Loans**

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days or more past due and management deems the collectability of the principal and 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.



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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, 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.

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The following table breaks down our loan portfolio between performing and non-performing status.

**Table 14****Loan Portfolio by Performing/Non-Performing Status**

(Dollar amounts in thousands)

	Total Loans	Current	Past Due		Non-accrual	Restructured
			30-89 Days Past Due	90 Days Past Due		
<b>As of December 31, 2009</b>						
Commercial and industrial	\$ 1,438,063	\$ 1,392,555	\$ 11,915	\$ 1,964	\$ 28,193	\$ 3,436
Agricultural	209,945	207,272	-	-	2,673	-
Commercial real estate:						
Office	394,228	385,851	2,327	-	6,050	-
Retail	331,803	318,368	96	330	12,918	91
Industrial	486,934	482,903	1,603	-	2,428	-
Total office, retail, and industrial	1,212,965	1,187,122	4,026	330	21,396	91
Residential land and development	313,919	200,061	974	86	112,798	-
Commercial construction	134,680	134,680	-	-	-	-
Commercial land	96,838	75,974	-	-	20,864	-
Multi-family	333,961	313,306	2,152	55	12,486	5,962
Investor-owned rental property	119,132	110,234	3,967	225	4,351	355
Other commercial real estate	679,851	634,561	5,132	130	28,006	12,022
Total commercial real estate	2,891,346	2,655,938	16,251	826	199,901	18,430
Total corporate loans	4,539,354	4,255,765	28,166	2,790	230,767	21,886