

FIRST MIDWEST BANCORP INC

Form 10-Q

May 10, 2013

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

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FORM 10-Q  
(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2013

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

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

|  |                                   |
|--|-----------------------------------|
| Delaware   | 36-3161078                        |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| One Pierce Place, Suite 1500                                   |                                   |
| Itasca, Illinois 60143-9768                                    |                                   |
| (Address of principal executive offices) (zip code)            |                                   |

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

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

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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, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act). Large accelerated filer ☒  
Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

As of May 10, 2013, there were 75,071,255 shares of \$.01 par value common stock outstanding.

FIRST MIDWEST BANCORP, INC.

FORM 10-Q

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## GLOSSARY OF TERMS

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

|                 |   |
|-----------------|---|
| ALCO            | Asset Liability Committee   |
| ATM             | automated teller machine  |
| Bank            | First Midwest Bank (the Company's wholly owned and principal operating subsidiary)  |
| BOLI            | bank-owned life insurance   |
| CDOs            | trust-preferred collateralized debt obligations   |
| CMOs            | collateralized mortgage obligations   |
| Code            | the Code of Ethics and Standards of Conduct of First Midwest Bancorp, Inc.  |
| Common Stock    | shares of common stock of First Midwest Bancorp, Inc. \$0.01 par value per share, which are traded on the Nasdaq Stock Market under the symbol "FMBI" |
| Company         | First Midwest Bancorp, Inc.   |
| CSV             | cash surrender value  |
| FASB            | Financial Accounting Standards Board  |
| FDIC            | Federal Deposit Insurance Corporation   |
| FDIC Agreements | Purchase and Assumption Agreements and Loss Share Agreements between the Bank and the FDIC  |
| Federal Reserve | Board of Governors of the Federal Reserve system  |
| FHLB            | Federal Home Loan Bank  |
| GAAP            | U.S. generally accepted accounting principles   |
| LIBOR           | London Interbank Offered Rate   |
| MBSs            | mortgage-backed securities  |
| OREO            | other real estate owned or properties acquired through foreclosure in partial or total satisfaction of certain loans as a result of borrower defaults |
| OTTI            | other-than-temporary impairment   |
| SEC             | U.S. Securities and Exchange Commission   |
| TDR             | troubled debt restructurings  |
| Treasury        | U.S. Department of the Treasury   |
| TRUPs           | trust preferred junior subordinated debentures  |
| VIE             | variable interest entity  |

## INTRODUCTION

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

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

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

Forward-looking statements are subject to known and unknown risks, uncertainties, and assumptions and may contain projections relating to our future financial performance including our growth strategies and anticipated trends in our business. For a detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements, you should refer to the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Results of Operations” in this report and in our Annual Report on Form 10-K for 2012 as well as our subsequent periodic and current reports filed with the U.S. Securities and Exchange Commission (“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.

## PART I. FINANCIAL INFORMATION (Unaudited)

## ITEM 1. FINANCIAL STATEMENTS

FIRST MIDWEST BANCORP, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Amounts in thousands, except per share data)

|   | March 31,<br>2013<br>(Unaudited) | December 31,<br>2012 |
|---|----------------------------------|----------------------|
| <b>Assets</b>   |                                  |                      |
| Cash and due from banks   | \$ 95,983                        | \$ 149,420           |
| Interest-bearing deposits in other banks                                | 457,333                          | 566,846              |
| Trading securities, at fair value                                       | 15,544                           | 14,162               |
| Securities available-for-sale, at fair value                            | 1,246,679                        | 1,082,403            |
| Securities held-to-maturity, at amortized cost                          | 31,443                           | 34,295               |
| Federal Home Loan Bank ("FHLB") and Federal Reserve Bank stock, at cost | 47,232                           | 47,232               |
| Loans, excluding covered loans  | 5,175,271                        | 5,189,676            |
| Covered loans   | 186,687                          | 197,894              |
| Allowance for loan and covered loan losses                              | (97,591)                         | (99,446)             |
| Net loans   | 5,264,367                        | 5,288,124            |
| Other real estate owned ("OREO"), excluding covered OREO                | 39,994                           | 39,953               |
| Covered OREO  | 14,774                           | 13,123               |
| Federal Deposit Insurance Corporation ("FDIC") indemnification asset    | 28,958                           | 37,051               |
| Premises, furniture, and equipment                                      | 118,617                          | 121,596              |
| Accrued interest receivable   | 27,985                           | 27,535               |
| Investment in bank-owned life insurance ("BOLI")                        | 206,706                          | 206,405              |
| Goodwill and other intangible assets                                    | 280,240                          | 281,059              |
| Other assets  | 179,964                          | 190,635              |
| <b>Total assets</b>   | <b>\$ 8,055,819</b>              | <b>\$ 8,099,839</b>  |
| <b>Liabilities</b>  |                                  |                      |
| Noninterest-bearing deposits  | \$ 1,738,110                     | \$ 1,762,903         |
| Interest-bearing deposits   | 4,862,685                        | 4,909,352            |
| <b>Total deposits</b>   | <b>6,600,795</b>                 | <b>6,672,255</b>     |
| Borrowed funds  | 208,854                          | 185,984              |
| Senior and subordinated debt  | 214,811                          | 214,779              |
| Accrued interest payable and other liabilities                          | 77,908                           | 85,928               |
| <b>Total liabilities</b>  | <b>7,102,368</b>                 | <b>7,158,946</b>     |
| <b>Stockholders' Equity</b>   |                                  |                      |
| Common stock  | 858                              | 858                  |
| Additional paid-in capital  | 409,077                          | 418,318              |
| Retained earnings   | 800,343                          | 786,453              |
| Accumulated other comprehensive loss, net of tax                        | (16,889)                         | (15,660)             |
| Treasury stock, at cost   | (239,938)                        | (249,076)            |
| <b>Total stockholders' equity</b>                                       | <b>953,451</b>                   | <b>940,893</b>       |
| <b>Total liabilities and stockholders' equity</b>                       | <b>\$ 8,055,819</b>              | <b>\$ 8,099,839</b>  |

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Per Common Share Data

|                    |    |         |    |         |
|--------------------|----|---------|----|---------|
| Par Value          | \$ | 0.01    | \$ | 0.01    |
| Shares authorized  |    | 100,000 |    | 100,000 |
| Shares issued      |    | 85,787  |    | 85,787  |
| Shares outstanding |    | 75,095  |    | 74,840  |
| Treasury shares    |    | 10,692  |    | 10,947  |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

|  | Quarters Ended<br>March 31, |           |
|--|-----------------------------|-----------|
|  | 2013                        | 2012      |
| Interest Income  |                             |           |
| Loans, excluding covered loans                                       | \$ 59,431                   | \$ 61,491 |
| Covered loans  | 3,449                       | 4,202     |
| Investment securities  | 7,356                       | 8,934     |
| Other short-term investments   | 809                         | 641       |
| Total interest income  | 71,045                      | 75,268    |
| Interest Expense   |                             |           |
| Deposits   | 3,320                       | 5,513     |
| Borrowed funds   | 442                         | 515       |
| Senior and subordinated debt   | 3,435                       | 4,058     |
| Total interest expense   | 7,197                       | 10,086    |
| Net interest income  | 63,848                      | 65,182    |
| Provision for loan and covered loan losses                           | 5,674                       | 18,210    |
| Net interest income after provision for loan and covered loan losses | 58,174                      | 46,972    |
| Noninterest Income   |                             |           |
| Service charges on deposit accounts                                  | 8,677                       | 8,660     |
| Card-based fees  | 5,076                       | 5,020     |
| Wealth management fees   | 5,839                       | 5,392     |
| Mortgage banking income  | 1,966                       | -         |
| Merchant servicing fees  | 2,554                       | 2,322     |
| Other service charges, commissions, and fees                         | 1,646                       | 1,198     |
| Other income   | 1,817                       | 3,040     |
| Net securities losses  | -                           | (943)     |
| Total noninterest income   | 27,575                      | 24,689    |
| Noninterest Expense  |                             |           |
| Salaries and wages   | 28,963                      | 27,257    |
| Retirement and other employee benefits                               | 7,606                       | 6,793     |
| Net occupancy and equipment expense                                  | 8,147                       | 8,331     |
| Technology and related costs   | 2,483                       | 2,858     |
| Professional services  | 5,218                       | 5,629     |
| Net OREO expense   | 1,799                       | 1,864     |
| FDIC premiums  | 1,742                       | 1,719     |
| Other expenses   | 8,856                       | 8,162     |
| Total noninterest expense  | 64,814                      | 62,613    |
| Income before income tax expense                                     | 20,935                      | 9,048     |
| Income tax expense   | 6,293                       | 1,156     |
| Net income   | 14,642                      | 7,892     |
| Net income applicable to non-vested restricted shares                | (212)                       | (139)     |
| Net income applicable to common shares                               | \$ 14,430                   | \$ 7,753  |
| Per Common Share Data  |                             |           |



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|  |    |        |    |        |
|--|----|--------|----|--------|
| Basic earnings per common share  | \$ | 0.20   | \$ | 0.11   |
| Diluted earnings per common share  | \$ | 0.20   | \$ | 0.11   |
| Dividends declared per common share  | \$ | 0.01   | \$ | 0.01   |
| Weighted-average common shares outstanding   |    | 73,867 |    | 73,505 |
| Weighted-average diluted common shares<br>outstanding                                |    | 73,874 |    | 73,505 |
| See accompanying notes to the unaudited condensed consolidated financial statements. |    |        |    |        |

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

|  | Quarters Ended<br>March 31, |           |
|--|-----------------------------|-----------|
|  | 2013                        | 2012      |
| Net income   | \$ 14,642                   | \$ 7,892  |
| Available-for-sale securities                                  |                             |           |
| Unrealized holding (losses) gains:                             |                             |           |
| Before tax   | (2,016)                     | 2,899     |
| Tax effect   | 787                         | (1,099)   |
| Net of tax   | (1,229)                     | 1,800     |
| Reclassification of net (losses) gains included in net income: |                             |           |
| Before tax   | -                           | (943)     |
| Tax effect   | -                           | 386       |
| Net of tax   | -                           | (557)     |
| Net unrealized holding (losses) gains                          | (1,229)                     | 2,357     |
| Total other comprehensive (loss) income                        | (1,229)                     | 2,357     |
| Total comprehensive income                                     | \$ 13,413                   | \$ 10,249 |

|                            | Accumulated<br>Unrealized<br>(Loss) Gain<br>on Securities<br>Available-<br>for-Sale | Unrecognized<br>Net Pension<br>Costs | Total<br>Accumulated<br>Other<br>Comprehensive<br>(Loss) Income |
|----------------------------|---|--------------------------------------|---|
| Balance at January 1, 2012 | \$ (354)  | \$ (12,922)                          | \$ (13,276)   |
| Other comprehensive income | 2,357   | -                                    | 2,357   |
| Balance at March 31, 2012  | \$ 2,003  | \$ (12,922)                          | \$ (10,919)   |
| Balance at January 1, 2013 | \$ 1,115  | \$ (16,775)                          | \$ (15,660)   |
| Other comprehensive loss   | (1,229)   | -                                    | (1,229)   |
| Balance at March 31, 2013  | \$ (114)  | \$ (16,775)                          | \$ (16,889)   |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

|  | Common<br>Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>(Loss)<br>Income | Treasury<br>Stock | Total      |
|--|---------------------------------|-----------------|----------------------------------|----------------------|---|-------------------|------------|
| Balance at January 1,<br>2012                                | 74,435                          | \$ 858          | \$ 428,001                       | \$ 810,487           | \$ (13,276)   | \$ (263,483)      | \$ 962,587 |
| Comprehensive income   | -                               | -               | -                                | 7,892                | 2,357   | -                 | 10,249     |
| Common dividends<br>declared<br>(\$0.01 per common<br>share) | -                               | -               | -                                | (749)                | -   | -                 | (749)      |
| Share-based<br>compensation expense                          | -                               | -               | 1,533                            | -                    | -   | -                 | 1,533      |
| Restricted stock<br>activity                                 | 464                             | -               | (15,777)                         | -                    | -   | 14,853            | ( 924)     |
| Treasury stock<br>(purchased for)                            |                                 |                 |                                  |                      |   |                   |            |
| issued to benefit plans                                      | (1)                             | -               | (15)                             | -                    | -   | 20                | 5          |
| Balance at March<br>31, 2012                                 | 74,898                          | \$ 858          | \$ 413,742                       | \$ 817,630           | \$ (10,919)   | \$ (248,610)      | \$ 972,701 |
| Balance at January 1,<br>2013                                | 74,840                          | \$ 858          | \$ 418,318                       | \$ 786,453           | \$ (15,660)   | \$ (249,076)      | \$ 940,893 |
| Comprehensive income<br>(loss)                               | -                               | -               | -                                | 14,642               | (1,229)   | -                 | 13,413     |
| Common dividends<br>declared<br>(\$0.01 per common<br>share) | -                               | -               | -                                | (752)                | -   | -                 | (752)      |
| Share-based<br>compensation expense                          | -                               | -               | 1,341                            | -                    | -   | -                 | 1,341      |
| Restricted stock<br>activity                                 | 256                             | -               | (10,567)                         | -                    | -   | 9,135             | (1,432)    |
| Treasury stock<br>(purchased for)                            |                                 |                 |                                  |                      |   |                   |            |
| issued to benefit plans                                      | (1)                             | -               | (15)                             | -                    | -   | 3                 | (12)       |
| Balance at March 31,<br>2013                                 | 75,095                          | \$ 858          | \$ 409,077                       | \$ 800,343           | \$ (16,889)   | \$ (239,938)      | \$ 953,451 |

See accompanying notes to the unaudited condensed consolidated financial statements.



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

|  | Quarters Ended<br>March 31, |            |
|--|-----------------------------|------------|
|  | 2013                        | 2012       |
| Net cash provided by operating activities  | \$ 27,993                   | \$ 67,862  |
| Investing Activities   |                             |            |
| Proceeds from maturities, repayments, and calls of securities available-for-sale | 63,724                      | 81,049     |
| Proceeds from sales of securities available-for-sale                             | -                           | 2,662      |
| Purchases of securities available-for-sale                                       | (232,730)                   | (254,881)  |
| Proceeds from maturities, repayments, and calls of securities held-to-maturity   | 3,380                       | 8,050      |
| Purchases of securities held-to-maturity   | (528)                       | (3,911)    |
| Proceeds from the redemption of FHLB stock                                       | -                           | 11,437     |
| Net decrease (increase) in loans   | 22,176                      | (66,671)   |
| (Purchases) of BOLI, net of proceeds from claims                                 | (20)                        | 239        |
| Proceeds from sales of OREO  | 3,493                       | 17,156     |
| Proceeds from sales of premises, furniture, and equipment                        | 1,425                       | -          |
| Purchases of premises, furniture, and equipment                                  | (985)                       | (536)      |
| Net cash used in investing activities  | (140,065)                   | (205,406)  |
| Financing Activities   |                             |            |
| Net (decrease) increase in deposit accounts                                      | (71,460)                    | 7,188      |
| Net increase (decrease) in borrowed funds  | 22,870                      | (3,216)    |
| Payments for the retirement of subordinated debt                                 | -                           | (20,004)   |
| Cash dividends paid  | (749)                       | (746)      |
| Restricted stock activity  | (1,564)                     | (728)      |
| Excess tax benefit (expense) related to share-based compensation                 | 25                          | (107)      |
| Net cash used in financing activities  | (50,878)                    | (17,613)   |
| Net decrease in cash and cash equivalents  | (162,950)                   | (155,157)  |
| Cash and cash equivalents at beginning of period                                 | 716,266                     | 641,530    |
| Cash and cash equivalents at end of period                                       | \$ 553,316                  | \$ 486,373 |
| Supplemental Disclosures:  |                             |            |
| Non-cash transfers of loans to OREO  | \$ 5,966                    | \$ 12,295  |
| Non-cash transfer of loans held-for-investment to loans held-for-sale            | -                           | 1,500      |
| Non-cash transfer of loans held-for-sale to loans held-for-investment            | -                           | 1,500      |
| Dividends declared but unpaid  | 752                         | 749        |

See accompanying notes to the unaudited condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The Company owns interests in certain variable interest entities (“VIEs”) as described in Note 21, “Variable Interest Entities,” in the Company’s 2012 10-K. A VIE is a partnership, limited liability company, trust, or other legal entity that does not have sufficient equity to finance its activities without additional subordinated financial support from other parties, or whose investors lack the characteristics associated with owning a controlling financial interest. The VIEs are not consolidated in the Company’s financial statements since the Company is not the primary beneficiary of any of the VIEs.

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

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

**Purchased Impaired Loans** – Purchased impaired loans are recorded at their estimated fair values on the purchase date and are accounted for prospectively based on estimates of expected cash flows. No allowance for credit losses is recorded on these loans at the acquisition date. To estimate the fair value, the Company generally aggregates purchased consumer loans and certain smaller balance commercial loans into pools of loans with common risk characteristics, such as delinquency status, credit score, and internal risk rating. Larger balance commercial loans are estimated on an individual basis. Expected future cash flows in excess of the fair value of loans at the purchase date (“accretable yield”) are recorded as interest income over the life of the loans if the timing and amount of the future cash flows can be reasonably estimated. The non-accretable yield represents the difference between contractually required payments and the cash flows expected to be collected at acquisition.

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



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

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

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

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

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

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

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

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

90-Days Past Due Loans – 90-days or more past due loans are loans with principal or interest payments three months or more past due. The Company continues to accrue interest on past due loans if it determines those loans are sufficiently collateralized and in the process of collection within a reasonable time period.

**Allowance for Credit Losses** – The allowance for credit losses is comprised of the allowance for loan losses, the allowance for covered loan losses, and the reserve for unfunded commitments and is maintained by management at a level believed adequate to absorb estimated losses inherent in the existing loan portfolio. Determination of the allowance for credit losses is subjective since it requires significant estimates and management judgment, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans, consideration of current economic trends, and other factors.

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

**Allowance for Loan Losses** – The allowance for loan losses consists of (i) specific reserves established for probable losses on individual loans where the recorded investment exceeds the value, (ii) an allowance based on a loss migration analysis that uses historical credit loss experience for each loan category, and (iii) the impact of other internal and external qualitative factors. The allowance for loan losses includes an allowance for covered open-end consumer loans that are not categorized as purchased impaired loans.

The specific reserves component of the allowance for loan losses is based on a periodic analysis of impaired loans exceeding a fixed dollar amount. If the value of an impaired loan is less than the recorded book value, the Company either establishes a valuation allowance (i.e., a specific reserve) equal to the excess of the book value over the value of the loan as a component of the allowance for loan losses or charges off the amount if it is a confirmed loss.

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

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

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

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

The establishment of the allowance for credit losses involves a high degree of judgment given the difficulty of assessing the factors impacting loan repayment and estimating the timing and amount of losses. While management utilizes its best judgment and information available, the adequacy of the allowance for credit losses depends on a variety of factors beyond

the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk classifications by regulatory authorities.

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

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

**Derivative Financial Instruments** – In the ordinary course of business, the Company enters into derivative transactions as part of its overall interest rate risk management strategy to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. All derivative instruments are recorded at fair value as either other assets or other liabilities in the Consolidated Statements of Financial Condition. Subsequent changes in a derivative's fair value are recognized in earnings unless specific hedge accounting criteria are met.

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

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

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

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

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

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

**Technical Corrections and Improvements:** In October of 2012, the FASB issued guidance to update the Accounting Standards Codification (the "Codification") on a variety of topics, which include source literature amendments, guidance

clarification and reference corrections, and relocated guidance. In addition, the standard includes amendments to conform terminology and clarifies certain fair value guidance in the Codification. Although the updates do not introduce any new fair value measurement requirements, they could result in changes to existing practices. Amendments that do not have transition guidance are effective immediately, and amendments subject to transition guidance will be effective for fiscal periods beginning after December 15, 2012. The adoption of this guidance on January 1, 2013 did not materially impact the Company's financial condition, results of operations, or liquidity.

**Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income:** In February of 2013, the FASB issued guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component on either the face of the income statement or as a separate disclosure in the notes to the financial statements. This guidance will be effective for fiscal periods beginning after December 15, 2012. The Company provides disclosures related to amounts reclassified out of accumulated other comprehensive income in Note 3, "Securities." Since this guidance only impacted the placement of certain disclosures in the financial statements, the adoption of this guidance on January 1, 2013 did not impact the Company's financial condition, results of operations, or liquidity.

### 3. SECURITIES

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

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

All other securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses, net of related deferred income taxes, recorded in stockholders' equity as a separate component of accumulated other comprehensive loss.

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Securities Portfolio  
(Dollar amounts in thousands)

|  | Amortized<br>Cost | March 31, 2013<br>Gross Unrealized |             | Fair<br>Value | Amortized<br>Cost | December 31, 2012<br>Gross Unrealized |             | Fair<br>Value |
|--|-------------------|------------------------------------|-------------|---------------|-------------------|---------------------------------------|-------------|---------------|
|  |                   | Gains                              | Losses      |               |                   | Gains                                 | Losses      |               |
| Securities Available-for-Sale                            |                   |                                    |             |               |                   |                                       |             |               |
| U.S. agency securities                                   | \$ 505            | \$ -                               | \$ -        | \$ 505        | \$ 508            | \$ -                                  | \$ -        | \$ 508        |
| Collateralized mortgage obligations (“CMOs”)             | 540,777           | 4,788                              | (532)       | 545,033       | 397,146           | 3,752                                 | (515)       | 400,383       |
| Other mortgage-backed securities (“MBSs”)                | 145,251           | 4,923                              | (100)       | 150,074       | 117,785           | 5,183                                 | (68)        | 122,900       |
| Municipal securities                                     | 490,988           | 21,515                             | (1,197)     | 511,306       | 495,906           | 24,623                                | (486)       | 520,043       |
| Trust preferred collateralized debt obligations (“CDOs”) | 46,532            | -                                  | (33,608)    | 12,924        | 46,533            | -                                     | (34,404)    | 12,129        |
| Corporate debt securities                                | 13,004            | 2,424                              | -           | 15,428        | 13,006            | 2,333                                 | -           | 15,339        |
| Equity securities:                                       |                   |                                    |             |               |                   |                                       |             |               |
| Hedge fund investment                                    | 1,230             | 1,282                              | -           | 2,512         | 1,231             | 385                                   | -           | 1,616         |
| Other equity securities                                  | 8,579             | 318                                | -           | 8,897         | 8,459             | 1,026                                 | -           | 9,485         |
| Total equity securities                                  | 9,809             | 1,600                              | -           | 11,409        | 9,690             | 1,411                                 | -           | 11,101        |
| Total  | \$ 1,246,866      | \$ 35,250                          | \$ (35,437) | \$ 1,246,679  | \$ 1,080,574      | \$ 37,302                             | \$ (35,473) | \$ 1,082,403  |
| Securities Held-to-Maturity                              |                   |                                    |             |               |                   |                                       |             |               |
| Municipal securities                                     | \$ 31,443         | \$ 1,515                           | \$ -        | \$ 32,958     | \$ 34,295         | \$ 1,728                              | \$ -        | \$ 36,023     |
| Trading Securities                                       |                   |                                    |             | \$ 15,544     |                   |                                       |             | \$ 14,162     |

Remaining Contractual Maturity of Securities  
(Dollar amounts in thousands)

| March 31, 2013     |            |                   |            |
|--------------------|------------|-------------------|------------|
| Available-for-Sale |            | Held-to-Maturity  |            |
| Amortized<br>Cost  | Fair Value | Amortized<br>Cost | Fair Value |



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|   |              |              |           |           |
|---|--------------|--------------|-----------|-----------|
| One year or less  | \$ 11,457    | \$ 11,231    | \$ 4,652  | \$ 4,876  |
| After one year to five years                              | 364,632      | 357,442      | 9,597     | 10,059    |
| After five years to ten years                             | 95,155       | 93,278       | 7,213     | 7,561     |
| After ten years   | 79,785       | 78,212       | 9,981     | 10,462    |
| Securities that do not have a single contractual maturity | 695,837      | 706,516      | -         | -         |
| Total   | \$ 1,246,866 | \$ 1,246,679 | \$ 31,443 | \$ 32,958 |

The carrying value of securities available-for-sale that were pledged to secure deposits and for other purposes as permitted or required by law totaled \$692.1 million at March 31, 2013 and \$675.3 million at December 31, 2012. No securities held-to-maturity were pledged as of March 31, 2013 or December 31, 2012.

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

Securities Gains (Losses)  
(Dollar amounts in thousands)

|   | Quarters Ended<br>March 31, |          |
|---|-----------------------------|----------|
|   | 2013                        | 2012     |
| Proceeds from sales   | \$ -                        | \$ 2,662 |
| Gains (losses) on sales of securities:                            |                             |          |
| Gross realized gains  | \$ -                        | \$ 47    |
| Gross realized losses   | -                           | (253)    |
| Net realized losses on securities sales                           | -                           | (206)    |
| Non-cash impairment charges:                                      |                             |          |
| Other-than-temporary securities impairment ("OTTI")               | -                           | (737)    |
| Portion of OTTI recognized in other comprehensive loss            | -                           | -        |
| Net non-cash impairment charges                                   | -                           | (737)    |
| Net realized losses   | -                           | (943)    |
| Income tax benefit on net realized losses                         | -                           | (386)    |
| Net amount reclassified from accumulated other comprehensive loss | \$ -                        | \$ (557) |
| Net trading gains (1)   | \$ 1,036                    | \$ 1,401 |

(1) All net trading gains relate to trading securities still held as of March 31, 2013 and March 31, 2012.

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

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

|            | Quarters Ended<br>March 31, |        |              |
|------------|-----------------------------|--------|--------------|
| CDO Number | 2013                        | 2012   | Life-to-Date |
| 1          | \$ -                        | \$ -   | \$ 10,360    |
| 2          | -                           | 642    | 9,402        |
| 3          | -                           | 79     | 2,262        |
| 4          | -                           | -      | 1,078        |
| 5          | -                           | -      | 8,570        |
| 6          | -                           | -      | 243          |
| 7          | -                           | -      | 6,750        |
|            | \$ -                        | \$ 721 | \$ 38,665    |



The following table summarizes changes in the amount of credit losses recognized in earnings on the Company's available-for-sale debt securities for which a portion of OTTI was recognized in other comprehensive income.

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

|  | Quarters Ended<br>March 31, |           |
|--|-----------------------------|-----------|
|  | 2013                        | 2012      |
| Cumulative amount recognized at the beginning of the period                | \$ 38,803                   | \$ 36,525 |
| Credit losses included in earnings (1):                                    |                             |           |
| Losses recognized on securities that previously had credit losses          | -                           | 737       |
| Losses recognized on securities that did not previously have credit losses | -                           | -         |
| Cumulative amount recognized at the end of the period                      | \$ 38,803                   | \$ 37,262 |

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

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

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

|                         |                            | Less Than 12 Months |                      | 12 Months or Longer |                      | Total         |                      |
|-------------------------|----------------------------|---------------------|----------------------|---------------------|----------------------|---------------|----------------------|
|                         | Number<br>of<br>Securities | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| As of March 31, 2013    |                            |                     |                      |                     |                      |               |                      |
| CMOs                    | 25                         | \$ 131,383          | \$ 487               | \$ 11,744           | \$ 45                | 143,127       | \$ 532               |
| Other MBSs              | 11                         | 34,598              | 80                   | 653                 | 20                   | 35,251        | 100                  |
| Municipal securities    | 89                         | 55,499              | 1,169                | 1,242               | 28                   | 56,741        | 1,197                |
| CDOs                    | 6                          | -                   | -                    | 12,924              | 33,608               | 12,924        | 33,608               |
| Total                   | 131                        | \$ 221,480          | \$ 1,736             | \$ 26,563           | \$ 33,701            | \$ 248,043    | \$ 35,437            |
|                         |                            |                     |                      |                     |                      |               |                      |
| As of December 31, 2012 |                            |                     |                      |                     |                      |               |                      |
| CMOs                    | 19                         | \$ 102,939          | \$ 421               | \$ 12,796           | \$ 94                | \$ 115,735    | \$ 515               |
| Other MBSs              | 6                          | 7,210               | 55                   | 176                 | 13                   | 7,386         | 68                   |
| Municipal securities    | 49                         | 28,903              | 459                  | 1,238               | 27                   | 30,141        | 486                  |
| CDOs                    | 6                          | -                   | -                    | 12,129              | 34,404               | 12,129        | 34,404               |
| Total                   | 80                         | \$ 139,052          | \$ 935               | \$ 26,339           | \$ 34,538            | \$ 165,391    | \$ 35,473            |

Substantially all of the Company's CMOs and other MBSs are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. Municipal securities are issued by municipal authorities, and the majority are supported by third-party insurance or some other form of credit enhancement. Management does not believe any remaining individual unrealized loss as of March 31, 2013 represents an OTTI since the unrealized losses are not believed to be attributed to credit quality, but rather to changes in interest rates and temporary market movements. In addition, the Company does not intend to sell the securities with unrealized losses, and it is not more

likely than not that the Company will be required to sell them before recovery of their amortized cost bases, which may be at maturity.

The unrealized losses on CDOs as of March 31, 2013 reflect the illiquidity of these structured investment vehicles. Management does not believe any remaining unrealized losses on the CDOs represent OTTI related to credit deterioration. In addition, the Company does not intend to sell the CDOs with unrealized losses, and the Company does not believe it is more likely than not that it will be required to sell them before recovery of their amortized cost bases, which may be at maturity. As of March 31, 2013, the portion of OTTI recognized in accumulated other comprehensive loss (i.e., not related to credit deterioration) totaled \$33.6 million.

Significant judgment is required to calculate the fair value of the CDOs, all of which are pooled. The Company estimates the fair value of these securities using discounted cash flow analyses with the assistance of a structured credit valuation firm. For additional discussion of the CDO valuation methodology, refer to Note 12, "Fair Value."

#### 4. LOANS

##### Loans Held-for-Investment

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

Loan Portfolio  
(Dollar amounts in thousands)

|   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| Commercial and industrial                         | \$ 1,659,872      | \$ 1,631,474         |
| Agricultural                                      | 274,991           | 268,618              |
| Commercial real estate:                           |                   |                      |
| Office, retail, and industrial                    | 1,344,256         | 1,333,191            |
| Multi-family                                      | 298,117           | 285,481              |
| Residential construction                          | 54,032            | 61,462               |
| Commercial construction                           | 122,210           | 124,954              |
| Other commercial real estate                      | 743,076           | 773,121              |
| Total commercial real estate                      | 2,561,691         | 2,578,209            |
| Total corporate loans                             | 4,496,554         | 4,478,301            |
| Home equity                                       | 379,352           | 390,033              |
| 1-4 family mortgages                              | 263,286           | 282,948              |
| Installment loans                                 | 36,079            | 38,394               |
| Total consumer loans                              | 678,717           | 711,375              |
| Total loans, excluding covered loans              | 5,175,271         | 5,189,676            |
| Covered loans (1)                                 | 186,687           | 197,894              |
| Total loans                                       | \$ 5,361,958      | \$ 5,387,570         |
| Deferred loan fees included in total loans        | \$ 5,263          | \$ 5,941             |
| Overdrawn demand deposits included in total loans | \$ 3,080          | \$ 4,451             |

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

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

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

##### Mortgage Loan Sales

During the quarter ended March 31, 2013, the Company sold \$54.0 million in mortgage loans, resulting in a gain of \$2.0 million, which is included in mortgage banking income in the Consolidated Statements of Income. The Company retained servicing responsibilities for the sold mortgages and collects servicing fees equal to a percentage of the outstanding principal

balance. The Company also retained limited recourse for credit losses on the sold loans. A description of the recourse obligation is presented in Note 10, "Commitments, Guarantees, and Contingent Liabilities."

## 5. ACQUIRED LOANS

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

The following table presents acquired loans.

| Acquired Loans<br>(Dollar amounts in thousands) |                |             |            |                   |             |            |
|---|----------------|-------------|------------|-------------------|-------------|------------|
|   | March 31, 2013 |             |            | December 31, 2012 |             |            |
|   | Covered        | Non-Covered | Total      | Covered           | Non-Covered | Total      |
| Home equity lines (1)                           | \$ 40,064      | \$ 4,909    | \$ 44,973  | \$ 43,132         | \$ 4,966    | \$ 48,098  |
| Purchased impaired loans                        | 119,268        | 17,277      | 136,545    | 126,673           | 18,198      | 144,871    |
| Other loans                                     | 27,355(2)      | 16,541      | 43,896     | 28,089(2)         | 17,514      | 45,603     |
| Total acquired loans                            | \$ 186,687     | \$ 38,727   | \$ 225,414 | \$ 197,894        | \$ 40,678   | \$ 238,572 |

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

(2) At acquisition, the Company made an election to account for these loans as purchased impaired loans.

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

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

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

Quarters Ended



|   | March 31, |           |
|---|-----------|-----------|
|   | 2013      | 2012      |
| Beginning balance   | \$ 37,051 | \$ 65,609 |
| Amortization  | (1,324)   | (1,979)   |
| Expected reimbursements from the FDIC for changes in expected credit losses | (942)     | 2,034     |
| Payments received from the FDIC   | (5,827)   | (7,176)   |
| Ending balance  | \$ 28,958 | \$ 58,488 |

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

Changes in Accretable Yield  
(Dollar amounts in thousands)

|                   | Quarters Ended<br>March 31, |           |
|-------------------|-----------------------------|-----------|
|                   | 2013                        | 2012      |
| Beginning balance | \$ 51,498                   | \$ 52,147 |
| Accretion         | (3,886)                     | (5,386)   |
| Other             | (2,080)                     | (5,716)   |
| Ending balance    | \$ 45,532                   | \$ 41,045 |

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

##### Past Due and Non-accrual Loans

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

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

|                                      | Aging Analysis (Accruing and Non-accrual) |                     |                          |                |              | Non-performing Loans |   |
|--------------------------------------|---|---------------------|--------------------------|----------------|--------------|----------------------|---|
|                                      | Current                                   | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Total Loans  | Non-accrual Loans    | 90 Days Past Due Loans, Still Accruing Interest |
| March 31, 2013                       |   |                     |                          |                |              |                      |   |
| Commercial and industrial            | \$ 1,639,420                              | \$ 8,088            | \$ 12,364                | \$ 20,452      | \$ 1,659,872 | \$ 29,625            | \$ 688  |
| Agricultural                         | 274,094                                   | 78                  | 819                      | 897            | 274,991      | 655                  | 242   |
| Commercial real estate:              |   |                     |                          |                |              |                      |   |
| Office, retail, and industrial       | 1,316,430                                 | 4,949               | 22,877                   | 27,826         | 1,344,256    | 26,438               | -   |
| Multi-family                         | 295,596                                   | 953                 | 1,568                    | 2,521          | 298,117      | 1,766                | 136   |
| Residential construction             | 48,560                                    | 129                 | 5,343                    | 5,472          | 54,032       | 5,552                | -   |
| Commercial construction              | 120,277                                   | 1,060               | 873                      | 1,933          | 122,210      | 873                  | -   |
| Other commercial real estate         | 726,886                                   | 3,066               | 13,124                   | 16,190         | 743,076      | 17,532               | 1,108   |
| Total commercial real estate         | 2,507,749                                 | 10,157              | 43,785                   | 53,942         | 2,561,691    | 52,161               | 1,244   |
| Total corporate loans                | 4,421,263                                 | 18,323              | 56,968                   | 75,291         | 4,496,554    | 82,441               | 2,174   |
| Home equity                          | 366,769                                   | 5,311               | 7,272                    | 12,583         | 379,352      | 6,354                | 2,025   |
| 1-4 family mortgages                 | 256,120                                   | 1,744               | 5,422                    | 7,166          | 263,286      | 4,680                | 1,315   |
| Installment loans                    | 33,820                                    | 299                 | 1,960                    | 2,259          | 36,079       | 1,922                | 38  |
| Total consumer loans                 | 656,709                                   | 7,354               | 14,654                   | 22,008         | 678,717      | 12,956               | 3,378   |
| Total loans, excluding covered loans | 5,077,972                                 | 25,677              | 71,622                   | 97,299         | 5,175,271    | 95,397               | 5,552   |
| Covered loans                        | 131,933                                   | 10,753              | 44,001                   | 54,754         | 186,687      | 20,912               | 24,934  |
| Total loans                          | \$ 5,209,905                              | \$ 36,430           | \$ 115,623               | \$ 152,053     | \$ 5,361,958 | \$ 116,309           | \$ 30,486                                       |
| December 31, 2012                    |   |                     |                          |                |              |                      |   |
| Commercial and industrial            | \$ 1,614,167                              | \$ 4,883            | \$ 12,424                | \$ 17,307      | \$ 1,631,474 | \$ 25,941            | \$ 2,138  |

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|                                      |              |           |            |            |              |           |           |
|--------------------------------------|--------------|-----------|------------|------------|--------------|-----------|-----------|
| Agricultural                         | 267,077      | 79        | 1,462      | 1,541      | 268,618      | 1,173     | 375       |
| Commercial real estate:              |              |           |            |            |              |           |           |
| Office, retail, and industrial       | 1,306,526    | 4,130     | 22,535     | 26,665     | 1,333,191    | 23,224    | 823       |
| Multi-family                         | 283,634      | 761       | 1,086      | 1,847      | 285,481      | 1,434     | 153       |
| Residential construction             | 57,009       | -         | 4,453      | 4,453      | 61,462       | 4,612     | -         |
| Commercial construction              | 124,081      | -         | 873        | 873        | 124,954      | 873       | -         |
| Other commercial real estate         | 755,103      | 1,053     | 16,965     | 18,018     | 773,121      | 16,214    | 1,534     |
| Total commercial real estate         | 2,526,353    | 5,944     | 45,912     | 51,856     | 2,578,209    | 46,357    | 2,510     |
| Total corporate loans                | 4,407,597    | 10,906    | 59,798     | 70,704     | 4,478,301    | 73,471    | 5,023     |
| Home equity                          | 376,801      | 6,482     | 6,750      | 13,232     | 390,033      | 6,189     | 1,651     |
| 1-4 family mortgages                 | 272,270      | 4,472     | 6,206      | 10,678     | 282,948      | 4,874     | 1,947     |
| Installment loans                    | 35,936       | 2,390     | 68         | 2,458      | 38,394       | -         | 68        |
| Total consumer loans                 | 685,007      | 13,344    | 13,024     | 26,368     | 711,375      | 11,063    | 3,666     |
| Total loans, excluding covered loans | 5,092,604    | 24,250    | 72,822     | 97,072     | 5,189,676    | 84,534    | 8,689     |
| Covered loans                        | 147,462      | 6,517     | 43,915     | 50,432     | 197,894      | 14,182    | 31,447    |
| Total loans                          | \$ 5,240,066 | \$ 30,767 | \$ 116,737 | \$ 147,504 | \$ 5,387,570 | \$ 98,716 | \$ 40,136 |

## Allowance for Credit Losses

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

Allowance for Credit Losses  
(Dollar amounts in thousands)

|  | Quarters Ended March 31, |            |
|--|--------------------------|------------|
|  | 2013                     | 2012       |
| Beginning balance  | \$ 102,812               | \$ 121,962 |
| Charge-offs  | (10,772)                 | (22,686)   |
| Recoveries of charge-offs                                | 3,243                    | 1,278      |
| Net charge-offs  | (7,529)                  | (21,408)   |
| Provision for loan and covered loan losses and other (1) | 5,174                    | 18,210     |
| Ending balance   | \$ 100,457               | \$ 118,764 |
| Allowance for loan and covered loan losses               | \$ 97,591                | \$ 116,264 |
| Reserve for unfunded commitments                         | 2,866                    | 2,500      |
| Total allowance for credit losses                        | \$ 100,457               | \$ 118,764 |

(1)Includes a \$500,000 reduction in the reserve for unfunded commitments, which is included in other noninterest expense in the Consolidated Statements of Income.

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

|  | Commercial,<br>Industrial,<br>and<br>Agricultural | Office,<br>Retail, and<br>Industrial | Multi-<br>Family | Residential<br>Construction | Other<br>Commercial<br>Real<br>Estate | Consumer  | Covered<br>Loans | Total<br>Allowance |
|--|---|--------------------------------------|------------------|-----------------------------|---------------------------------------|-----------|------------------|--------------------|
| Quarter ended March 31, 2013                             |   |                                      |                  |                             |                                       |           |                  |                    |
| Beginning balance  | \$ 36,761   | \$ 11,432                            | \$ 3,575         | \$ 6,260                    | \$ 18,680                             | \$ 14,042 | \$ 12,062        | \$ 102,812         |
| Charge-offs  | (3,076)   | (1,262)                              | (165)            | (565)                       | (2,634)                               | (2,364)   | (706)            | (10,772)           |
| Recoveries of charge-offs                                | 2,089   | 2                                    | 5                | -                           | 1,032                                 | 107       | 8                | 3,243              |
| Net charge-offs  | (987)   | (1,260)                              | (160)            | (565)                       | (1,602)                               | (2,257)   | (698)            | (7,529)            |
| Provision for loan and covered loan losses and other (1) | 770   | 523                                  | 289              | (68)                        | 1,655                                 | 1,142     | 863              | 5,174              |
| Ending balance   | \$ 36,544   | \$ 10,695                            | \$ 3,704         | \$ 5,627                    | \$ 18,733                             | \$ 12,927 | \$ 12,227        | \$ 100,457         |
| Quarter ended March 31, 2012                             |   |                                      |                  |                             |                                       |           |                  |                    |
| Beginning balance  | \$ 46,017   | \$ 16,012                            | \$ 5,067         | \$ 14,563                   | \$ 24,471                             | \$ 14,843 | \$ 989           | \$ 121,962         |

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|  |           |           |          |           |           |           |        |            |
|--|-----------|-----------|----------|-----------|-----------|-----------|--------|------------|
| Charge-offs                                | (8,190)   | (2,667)   | (140)    | (683)     | (8,354)   | (2,378)   | (274)  | (22,686)   |
| Recoveries of charge-offs                  | 716       | 2         | 131      | 220       | 7         | 202       | -      | 1,278      |
| Net charge-offs                            | (7,474)   | (2,665)   | (9)      | (463)     | (8,347)   | (2,176)   | (274)  | (21,408)   |
| Provision for loan and covered loan losses | 6,172     | 4,209     | 24       | 163       | 6,325     | 1,039     | 278    | 18,210     |
| Ending balance                             | \$ 44,715 | \$ 17,556 | \$ 5,082 | \$ 14,263 | \$ 22,449 | \$ 13,706 | \$ 993 | \$ 118,764 |

(1)Includes a \$500,000 reduction in the reserve for unfunded commitments, which is included in other noninterest expense in the Consolidated Statements of Income.

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

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

|  | Loans  |  |   |              | Allowance For Credit Losses                    |  |   |            |
|--|--|--|---|--------------|--|--|---|------------|
|  | Individually<br>Evaluated<br>For<br>Impairment | Collectively<br>Evaluated<br>For<br>Impairment | Acquired<br>with<br>Deteriorated<br>Credit<br>Quality | Total        | Individually<br>Evaluated<br>For<br>Impairment | Collectively<br>Evaluated<br>For<br>Impairment | Acquired<br>with<br>Deteriorated<br>Credit<br>Quality | Total      |
| March 31, 2013                                 |  |  |   |              |  |  |   |            |
| Commercial,<br>industrial, and<br>agricultural | \$ 26,386                                      | \$ 1,906,585                                   | \$ 1,892  | \$ 1,934,863 | \$ 9,569                                       | \$ 26,975                                      | \$ -  | \$ 36,544  |
| Commercial real<br>estate:                     |  |  |   |              |  |  |   |            |
| Office, retail,<br>and industrial              | 24,429   | 1,319,827                                      | -   | 1,344,256    | 508  | 10,187   | -   | 10,695     |
| Multi-family                                   | 971  | 297,020  | 126   | 298,117      | -  | 3,704  | -   | 3,704      |
| Residential<br>construction                    | 5,133  | 48,899   | -   | 54,032       | 10   | 5,617  | -   | 5,627      |
| Other<br>commercial real<br>estate             | 16,978   | 843,821  | 4,487   | 865,286      | 1,319  | 17,414   | -   | 18,733     |
| Total<br>commercial real<br>estate             | 47,511   | 2,509,567                                      | 4,613   | 2,561,691    | 1,837  | 36,922   | -   | 38,759     |
| Total<br>corporate loans                       | 73,897   | 4,416,152                                      | 6,505   | 4,496,554    | 11,406   | 63,897   | -   | 75,303     |
| Consumer                                       | -  | 667,945  | 10,772  | 678,717      | -  | 12,927   | -   | 12,927     |
| Total<br>loans, excluding<br>covered           | 73,897   | 5,084,097                                      | 17,277  | 5,175,271    | 11,406   | 76,824   | -   | 88,230     |
| Covered home<br>equity lines of<br>credit (1)  | -  | 40,064   | -   | 40,064       | -  | 855  | -   | 855        |
| Other covered<br>loans                         | -  | -  | 146,623   | 146,623      | -  | -  | 11,372  | 11,372     |
| Total covered<br>loans                         | -  | 40,064   | 146,623   | 186,687      | -  | 855  | 11,372  | 12,227     |
| Total loans                                    | \$ 73,897                                      | \$ 5,124,161                                   | \$ 163,900  | \$ 5,361,958 | \$ 11,406                                      | \$ 77,679                                      | \$ 11,372   | \$ 100,457 |
| December 31,<br>2012                           |  |  |   |              |  |  |   |            |
| Commercial,<br>industrial, and<br>agricultural | \$ 23,731                                      | \$ 1,874,464                                   | \$ 1,897  | \$ 1,900,092 | \$ 9,404                                       | \$ 27,357                                      | \$ -  | \$ 36,761  |

|   |           |              |            |              |           |           |           |            |
|---|-----------|--------------|------------|--------------|-----------|-----------|-----------|------------|
| Commercial real estate:                 |           |              |            |              |           |           |           |            |
| Office, retail, and industrial          | 21,736    | 1,311,455    | -          | 1,333,191    | 971       | 10,461    | -         | 11,432     |
| Multi-family                            | 642       | 284,718      | 121        | 285,481      | -         | 3,575     | -         | 3,575      |
| Residential construction                | 4,040     | 57,422       | -          | 61,462       | -         | 6,260     | -         | 6,260      |
| Other commercial real estate            | 16,160    | 877,749      | 4,166      | 898,075      | 1,247     | 17,433    | -         | 18,680     |
| Total commercial real estate            | 42,578    | 2,531,344    | 4,287      | 2,578,209    | 2,218     | 37,729    | -         | 39,947     |
| Total corporate loans                   | 66,309    | 4,405,808    | 6,184      | 4,478,301    | 11,622    | 65,086    | -         | 76,708     |
| Consumer                                | -         | 699,361      | 12,014     | 711,375      | -         | 14,042    | -         | 14,042     |
| Total loans, excluding covered loans    | 66,309    | 5,105,169    | 18,198     | 5,189,676    | 11,622    | 79,128    | -         | 90,750     |
| Covered home equity lines of credit (1) | -         | 43,132       | -          | 43,132       | -         | 928       | -         | 928        |
| Other covered loans                     | -         | -            | 154,762    | 154,762      | -         | -         | 11,134    | 11,134     |
| Total covered loans                     | -         | 43,132       | 154,762    | 197,894      | -         | 928       | 11,134    | 12,062     |
| Total loans                             | \$ 66,309 | \$ 5,148,301 | \$ 172,960 | \$ 5,387,570 | \$ 11,622 | \$ 80,056 | \$ 11,134 | \$ 102,812 |

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

#### Loans Individually Evaluated for Impairment

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



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

|  | March 31, 2013                 |                               |                          |                  | December 31, 2012              |                               |                          |                  |
|--|--------------------------------|-------------------------------|--------------------------|------------------|--------------------------------|-------------------------------|--------------------------|------------------|
|  | Recorded Investment In         |                               | Unpaid Principal Balance | Specific Reserve | Recorded Investment In         |                               | Unpaid Principal Balance | Specific Reserve |
|  | Loans with No Specific Reserve | Loans with a Specific Reserve |                          |                  | Loans with No Specific Reserve | Loans with a Specific Reserve |                          |                  |
| Commercial and industrial                                  | \$ 6,849                       | \$ 19,537                     | \$ 44,543                | \$ 9,569         | \$ 5,636                       | \$ 18,095                     | \$ 39,834                | \$ 9,404         |
| Agricultural   | -                              | -                             | -                        | -                | -                              | -                             | -                        | -                |
| Commercial real estate:                                    |                                |                               |                          |                  |                                |                               |                          |                  |
| Office, retail, and industrial                             | 21,854                         | 2,575                         | 33,447                   | 508              | 14,504                         | 7,232                         | 29,631                   | 971              |
| Multi-family   | 971                            | -                             | 2,742                    | -                | 642                            | -                             | 2,406                    | -                |
| Residential construction                                   | 4,752                          | 381                           | 12,051                   | 10               | 4,040                          | -                             | 10,741                   | -                |
| Commercial construction                                    | 876                            | -                             | 1,242                    | -                | -                              | 876                           | 1,242                    | 90               |
| Other commercial real estate                               | 3,807                          | 12,295                        | 25,156                   | 1,319            | 5,218                          | 10,066                        | 23,907                   | 1,157            |
| Total commercial real estate                               | 32,260                         | 15,251                        | 74,638                   | 1,837            | 24,404                         | 18,174                        | 67,927                   | 2,218            |
| Total impaired loans individually evaluated for impairment | \$ 39,109                      | \$ 34,788                     | \$ 119,181               | \$ 11,406        | \$ 30,040                      | \$ 36,269                     | \$ 107,761               | \$ 11,622        |

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

|                                | Quarters Ended           |                                |                          |                                |
|--------------------------------|--------------------------|--------------------------------|--------------------------|--------------------------------|
|                                | March 31, 2013           |                                | March 31, 2012           |                                |
|                                | Average Recorded Balance | Interest Income Recognized (1) | Average Recorded Balance | Interest Income Recognized (1) |
| Commercial and industrial      | \$ 26,937                | \$ 2                           | \$ 45,630                | \$ 9                           |
| Agricultural                   | 1,048                    | -                              | 922                      | -                              |
| Commercial real estate:        |                          |                                |                          |                                |
| Office, retail, and industrial | 24,275                   | 4                              | 28,683                   | -                              |
| Multi-family                   | 1,534                    | -                              | 6,528                    | -                              |
| Residential construction       | 4,663                    | -                              | 17,074                   | -                              |

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|                              |           |      |            |      |
|------------------------------|-----------|------|------------|------|
| Commercial construction      | 873       | -    | 22,755     | -    |
| Other commercial real estate | 16,109    | 3    | 51,842     | -    |
| Total commercial real estate | 47,454    | 7    | 126,882    | -    |
| Total impaired loans         | \$ 75,439 | \$ 9 | \$ 173,434 | \$ 9 |

(1)Recorded using the cash basis of accounting.

## TDRs

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

TDRs by Class  
(Dollar amounts in thousands)

|                                | As of March 31, 2013 |                    |           | As of December 31, 2012 |                    |           |
|--------------------------------|----------------------|--------------------|-----------|-------------------------|--------------------|-----------|
|                                | Accruing             | Non-accrual<br>(1) | Total     | Accruing                | Non-accrual<br>(1) | Total     |
| Commercial and industrial      | \$ 712               | \$ 2,492           | \$ 3,204  | \$ 519                  | \$ 2,545           | \$ 3,064  |
| Agricultural                   | -                    | -                  | -         | -                       | -                  | -         |
| Commercial real estate:        |                      |                    |           |                         |                    |           |
| Office, retail, and industrial | 244                  | 2,156              | 2,400     | -                       | 2,407              | 2,407     |
| Multi-family                   | -                    | -                  | -         | -                       | 150                | 150       |
| Residential construction       | 504                  | -                  | 504       | -                       | -                  | -         |
| Commercial construction        | -                    | -                  | -         | -                       | -                  | -         |
| Other commercial real estate   | -                    | 4,746              | 4,746     | 5,206                   | 4,649              | 9,855     |
| Total commercial real estate   | 748                  | 6,902              | 7,650     | 5,206                   | 7,206              | 12,412    |
| Total corporate loans          | 1,460                | 9,394              | 10,854    | 5,725                   | 9,751              | 15,476    |
| Home equity                    | 38                   | 232                | 270       | 40                      | 234                | 274       |
| 1-4 family mortgages           | 1,089                | 779                | 1,868     | 1,102                   | 939                | 2,041     |
| Installment loans              | -                    | -                  | -         | -                       | -                  | -         |
| Total consumer loans           | 1,127                | 1,011              | 2,138     | 1,142                   | 1,173              | 2,315     |
| Total loans                    | \$ 2,587             | \$ 10,405          | \$ 12,992 | \$ 6,867                | \$ 10,924          | \$ 17,791 |

(1) These loans are included in non-accrual loans in the preceding tables.

The following table presents a summary of loans that were restructured during the quarters ended March 31, 2013 and 2012.

TDRs Restructured During the Period  
(Dollar amounts in thousands)

|                              | Number<br>of<br>Loans | Pre-<br>Modification<br>Recorded<br>Investment | Funds<br>Disbursed | Interest<br>and Escrow<br>Capitalized | Post-<br>Modification<br>Recorded<br>Investment |
|------------------------------|-----------------------|--|--------------------|---------------------------------------|---|
| Quarter ended March 31, 2013 |                       |  |                    |                                       |   |

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|   |   |    |       |    |    |    |   |    |       |
|---|---|----|-------|----|----|----|---|----|-------|
| Commercial and industrial                 | 2 | \$ | 716   | \$ | -  | \$ | 2 | \$ | 718   |
| Office, retail, and industrial            | 1 |    | 215   |    | 30 |    | - |    | 245   |
| Residential construction                  | 2 |    | 508   |    | -  |    | - |    | 508   |
| 1-4 family mortgages                      | 1 |    | 132   |    | -  |    | 4 |    | 136   |
| Total TDRs restructured during the period | 6 | \$ | 1,571 | \$ | 30 | \$ | 6 | \$ | 1,607 |
| Quarter ended March 31, 2012              |   |    |       |    |    |    |   |    |       |
| 1-4 family mortgages                      | 3 | \$ | 430   | \$ | -  | \$ | 4 | \$ | 434   |
| Total TDRs restructured during the period | 3 | \$ | 430   | \$ | -  | \$ | 4 | \$ | 434   |

TDRs are included in the calculation of the allowance for credit losses in the same manner as impaired loans. TDRs had related specific reserves totaling \$2.5 million as of March 31, 2013 and \$2.8 million as of December 31, 2012.

Accruing TDRs that have payment defaults and do not perform in accordance with their modified terms are transferred to non-accrual. The following table presents TDRs that had payment defaults during the quarters ended March 31, 2013 and 2012 where the default occurred within twelve months of the restructure date.

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

|                              | Quarters Ended     |                        |                    |                        |
|------------------------------|--------------------|------------------------|--------------------|------------------------|
|                              | March 31, 2013     |                        | March 31, 2012     |                        |
|                              | Number of<br>Loans | Recorded<br>Investment | Number of<br>Loans | Recorded<br>Investment |
| Commercial and industrial    | 1                  | \$ 350                 | -                  | \$ -                   |
| Other commercial real estate | 2                  | 156                    | -                  | -                      |
| 1-4 family mortgages         | -                  | -                      | 1                  | 62                     |
| Total                        | 3                  | \$ 506                 | 1                  | \$ 62                  |

For TDRs to be removed from TDR status, the loans must (i) have a market rate of interest at the time of restructuring and (ii) be in compliance with the modified loan terms. TDRs that were returned to performing status totaled \$5.0 million for the quarter ended March 31, 2013 and \$16.0 million for the quarter ended March 31, 2012.

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

#### Credit Quality Indicators

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

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

|                                | Pass         | Special<br>Mention (1) | Substandard (2) | Non-accrual (3) | Total        |
|--------------------------------|--------------|------------------------|-----------------|-----------------|--------------|
| March 31, 2013                 |              |                        |                 |                 |              |
| Commercial and industrial      | \$ 1,588,733 | \$ 31,258              | \$ 10,256       | \$ 29,625       | \$ 1,659,872 |
| Agricultural                   | 274,336      | -                      | -               | 655             | 274,991      |
| Commercial real estate:        |              |                        |                 |                 |              |
| Office, retail, and industrial | 1,245,339    | 55,086                 | 17,393          | 26,438          | 1,344,256    |
| Multi-family                   | 293,816      | 2,535                  | -               | 1,766           | 298,117      |
| Residential construction       | 30,822       | 9,215                  | 8,443           | 5,552           | 54,032       |
| Commercial construction        | 87,714       | 13,767                 | 19,856          | 873             | 122,210      |
| Other commercial real estate   | 689,394      | 9,928                  | 26,222          | 17,532          | 743,076      |
| Total commercial real estate   | 2,347,085    | 90,531                 | 71,914          | 52,161          | 2,561,691    |
| Total corporate loans          | \$ 4,210,154 | \$ 121,789             | \$ 82,170       | \$ 82,441       | \$ 4,496,554 |
| December 31, 2012              |              |                        |                 |                 |              |
| Commercial and industrial      | \$ 1,558,932 | \$ 37,833              | \$ 8,768        | \$ 25,941       | \$ 1,631,474 |
| Agricultural                   | 267,114      | 331                    | -               | 1,173           | 268,618      |
| Commercial real estate:        |              |                        |                 |                 |              |
| Office, retail, and industrial | 1,235,950    | 57,271                 | 16,746          | 23,224          | 1,333,191    |
| Multi-family                   | 282,126      | 1,921                  | -               | 1,434           | 285,481      |
| Residential construction       | 33,392       | 11,870                 | 11,588          | 4,612           | 61,462       |
| Commercial construction        | 95,567       | 14,340                 | 14,174          | 873             | 124,954      |
| Other commercial real estate   | 712,702      | 14,056                 | 30,149          | 16,214          | 773,121      |
| Total commercial real estate   | 2,359,737    | 99,458                 | 72,657          | 46,357          | 2,578,209    |
| Total corporate loans          | \$ 4,185,783 | \$ 137,622             | \$ 81,425       | \$ 73,471       | \$ 4,478,301 |

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

(2) Loans categorized as substandard exhibit a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt. These loans continue to accrue interest because they are well secured and collection of principal and interest is expected within a reasonable time.

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

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

|                      | Performing | Non-accrual | Total      |
|----------------------|------------|-------------|------------|
| March 31, 2013       |            |             |            |
| Home equity          | \$ 372,998 | \$ 6,354    | \$ 379,352 |
| 1-4 family mortgages | 258,606    | 4,680       | 263,286    |
| Installment loans    | 34,157     | 1,922       | 36,079     |
| Total consumer loans | \$ 665,761 | \$ 12,956   | \$ 678,717 |
| December 31, 2012    |            |             |            |
| Home equity          | \$ 383,844 | \$ 6,189    | \$ 390,033 |
| 1-4 family mortgages | 278,074    | 4,874       | 282,948    |
| Installment loans    | 38,394     | -           | 38,394     |
| Total consumer loans | \$ 700,312 | \$ 11,063   | \$ 711,375 |

## 7. EARNINGS PER COMMON SHARE

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

|   | Quarters Ended<br>March 31, |          |
|---|-----------------------------|----------|
|   | 2013                        | 2012     |
| Net income  | \$ 14,642                   | \$ 7,892 |
| Net income applicable to non-vested restricted shares   | (212)                       | (139)    |
| Net income applicable to common shares  | \$ 14,430                   | \$ 7,753 |
| Weighted-average common shares outstanding:   |                             |          |
| Weighted-average common shares outstanding (basic)  | 73,867                      | 73,505   |
| Dilutive effect of common stock equivalents   | 7                           | -        |
| Weighted-average diluted common shares outstanding  | 73,874                      | 73,505   |
| Basic earnings per common share   | \$ 0.20                     | \$ 0.11  |
| Diluted earnings per common share   | \$ 0.20                     | \$ 0.11  |
| Anti-dilutive shares not included in the computation of diluted earnings per common share (1) | 1,594                       | 1,863    |

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

## 8. INCOME TAXES

Income Tax Expense  
(Dollar amounts in thousands)

|                                  | Quarters Ended<br>March 31, |          |
|----------------------------------|-----------------------------|----------|
|                                  | 2013                        | 2012     |
| Income before income tax expense | \$ 20,935                   | \$ 9,048 |
| Income tax expense:              |                             |          |
| Federal income tax expense       | \$ 4,360                    | \$ 845   |
| State income tax expense         | 1,933                       | 311      |
| Total income tax expense         | \$ 6,293                    | \$ 1,156 |
| Effective income tax rate        | 30.1%                       | 12.8%    |

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

Income tax expense was \$6.3 million for the first quarter of 2013 compared to \$1.2 million for the first quarter of 2012. The increase in income tax expense resulted primarily from higher first quarter 2013 income subject to tax at statutory rates. This increase in taxable income in relation to pre-tax income also resulted in a higher effective tax rate in the first quarter of 2013.



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

## 9. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Company enters into derivative transactions as part of its interest rate risk management strategy to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The Company hedges the fair value of fixed rate commercial real estate loans using interest rate swaps through which the Company pays fixed amounts and receives variable amounts. These derivative contracts are designated as fair value hedges.

Fair Value Hedges  
(Dollar amounts in thousands)

|   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| Related to fixed rate commercial loans                                  |                   |                      |
| Notional amount outstanding   | \$ 15,581         | \$ 15,860            |
| Derivative liability fair value   | \$ (2,090)        | \$ (2,270)           |
| Weighted-average interest rate received                                 | 2.12%             | 2.12%                |
| Weighted-average interest rate paid                                     | 6.39%             | 6.39%                |
| Weighted-average maturity (in years)                                    | 4.51              | 4.76                 |
| Cash pledged to collateralize net unrealized losses with counterparties |                   |                      |
| (1)   | \$ 2,154          | \$ 2,516             |
| Fair value of assets needed to settle derivative transactions (2)       | \$ 2,120          | \$ 2,301             |

(1) No other collateral was required to be pledged.

(2) If credit risk related contingent factors were triggered.

Hedge ineffectiveness is recognized in other noninterest income in the Consolidated Statements of Income. For the periods ended March 31, 2013 and December 31, 2012, there were no gains or losses relating to fair value hedge ineffectiveness.

The Company also enters into derivative transactions with customers and simultaneously enters into an offsetting interest rate derivative transaction with a third-party. This transaction allows the Company's customers to effectively convert a variable rate loan into a fixed rate loan. Due to the offsetting nature of these transactions, the Company does not apply hedge accounting treatment. Transaction fees of \$522,000 related to these transactions were recorded in noninterest income for the period ended March 31, 2013.

## Other Derivative Instruments

(Dollar amounts in thousands)

|                                  | March 31,<br>2013 | December 31,<br>2012 |
|----------------------------------|-------------------|----------------------|
| Related to customer transactions |                   |                      |
| Notional amount outstanding      | \$ 23,356         | \$ -                 |
| Derivative asset fair value      | \$ 671            | \$ -                 |
| Derivative liability fair value  | \$ (671)          | \$ -                 |

Derivative instruments are inherently subject to credit risk, which represents the Company's risk of loss when the counterparty to a derivative contract fails to perform according to the terms of the agreement. Credit risk is managed

by limiting and collateralizing the aggregate amount of net unrealized losses by transaction, monitoring the size and the maturity structure of the derivatives, and applying uniform credit standards. Company policy establishes limits on credit exposure to any single counterparty. In addition, the Company established bilateral collateral agreements with derivative counterparties that provide for exchanges of marketable securities or cash to collateralize either party's net losses above a stated minimum threshold. At March 31, 2013, these collateral agreements covered 100% of the fair value of the Company's outstanding fair value hedges. Derivative assets and liabilities are presented gross, rather than net, of pledged collateral amounts.

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

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

## 10. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

## Credit Commitments and Guarantees

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

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

|   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| Commitments to extend credit:                             |                   |                      |
| Commercial and industrial                                 | \$ 768,195        | \$ 737,973           |
| Commercial real estate                                    | 206,248           | 168,105              |
| Residential construction                                  | 18,230            | 18,986               |
| Home equity lines   | 258,878           | 258,156              |
| Credit card lines   | 26,167            | 25,459               |
| Overdraft protection program (1)                          | 175,238           | 176,328              |
| All other commitments                                     | 105,650           | 105,344              |
| Total commitments   | \$ 1,558,606      | \$ 1,490,351         |
| Letters of credit:  |                   |                      |
| Commercial real estate                                    | \$ 44,074         | \$ 52,145            |
| Residential construction                                  | 5,776             | 5,696                |
| All other   | 56,269            | 57,996               |
| Total letters of credit                                   | \$ 106,119        | \$ 115,837           |
| Unamortized fees associated with letters of credit (2)(3) | \$ 748            | \$ 740               |
| Remaining weighted-average term, in months                | 11.35             | 13.20                |
| Remaining lives, in years                                 | 0.1 to 11.3       | 0.1 to 11.6          |
| Recourse on assets sold:                                  |                   |                      |
| Unpaid principal balance of assets sold                   | \$ 102,448        | \$ 50,110            |
| Carrying value of recourse obligation (2)                 | 99                | 55                   |

|                                       | Advance Dated<br>May 17,<br>2012 | October 3,<br>2012 |
|---------------------------------------|----------------------------------|--------------------|
| Forward committed advances with FHLB: |                                  |                    |
| Amount of advance                     | \$ 200,000                       | \$ 50,000          |
| Interest rate                         | 2.05%                            | 1.77%              |
| Expected settlement date              | May 19, 2014                     | October 3, 2014    |
| Maturity date                         | May 20, 2019                     | October 3, 2019    |

(1)Federal regulations regarding electronic fund transfers require customers to affirmatively consent to the institution's overdraft service for automated teller machine and one-time debit card transactions before overdraft fees may be assessed on the account. Customers are provided a specific line for the amount they may overdraw.

(2)Included in other liabilities in the Consolidated Statements of Financial Condition.

(3)The Company is amortizing these amounts into income over the commitment period.

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

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

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

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

As a result of the sale of certain 1-4 family mortgage loans, the Company is contractually obligated to repurchase any non-performing loans or loans underwritten with eligibility defects at recorded value. In accordance with the sales agreement, there is no limitation on the maximum potential future payments or expiration of the Company's recourse obligation. No loans were required to be repurchased during the quarters ended March 31, 2013 or 2012 under the sales agreement.

During 2012, the Company entered into two forward commitments with the FHLB to take advantage of low interest rates for future funding. The advances have prepayment features allowing the Company to prepay the advances below par if the prepayment calculations indicate a discount.

#### Legal Proceedings

In August of 2011, the Bank was named in a purported class action lawsuit filed in the Circuit Court of Cook County, Illinois on behalf of certain of the Bank's customers who incurred overdraft fees. The lawsuit is based on the Bank's practices relating to debit card transactions, and alleges that these practices resulted in customers being assessed excessive overdraft fees. The plaintiffs seek an unspecified amount of damages and other relief, including restitution, and no class has been certified. The Bank filed a motion to dismiss the complaint and, on January 23, 2013, the Circuit Court granted the Bank's motion and dismissed the complaint with prejudice. On February 20, 2013, the plaintiffs filed a notice of appeal with the Illinois Appellate Court. The Company continues to believe that the Bank has meritorious defenses to the claims made by the plaintiffs.

There are certain other legal proceedings pending against the Company and its subsidiaries in the ordinary course of business. The Company does not believe that liabilities, individually or in the aggregate, arising from legal proceedings, if any, would have a material adverse effect on the consolidated financial condition of the Company as of March 31, 2013.

## 11. FAIR VALUE

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

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

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

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

Assets and liabilities are assigned to a level within the fair value hierarchy based on the lowest level of significant input used to measure fair value. Assets and liabilities may change levels within the fair value hierarchy due to market conditions or other circumstances. Those transfers are recognized on the date of the event that prompted the transfer. There were no transfers of assets or liabilities between levels of the fair value hierarchy during the periods presented.



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

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

| Recurring Fair Value Measurements<br>(Dollar amounts in thousands) |                |           |         |                   |           |         |
|--|----------------|-----------|---------|-------------------|-----------|---------|
|  | March 31, 2013 |           |         | December 31, 2012 |           |         |
|  | Level 1        | Level 2   | Level 3 | Level 1           | Level 2   | Level 3 |
| <b>Assets:</b>   |                |           |         |                   |           |         |
| <b>Trading securities:</b>   |                |           |         |                   |           |         |
| Money market funds   | \$ 1,350       | \$ -      | \$ -    | \$ 1,554          | \$ -      | \$ -    |
| Mutual funds   | 14,194         | -         | -       | 12,608            | -         | -       |
| Total trading securities   | 15,544         | -         | -       | 14,162            | -         | -       |
| <b>Securities available-for-sale:</b>                              |                |           |         |                   |           |         |
| U.S. agency securities   | -              | 505       | -       | -                 | 508       | -       |
| CMOs   | -              | 545,033   | -       | -                 | 400,383   | -       |
| Other residential MBSs   | -              | 150,074   | -       | -                 | 122,900   | -       |
| Municipal securities   | -              | 511,306   | -       | -                 | 520,043   | -       |
| CDOs   | -              | -         | 12,924  | -                 | -         | 12,129  |
| Corporate debt securities  | -              | 15,428    | -       | -                 | 15,339    | -       |
| Hedge fund investment  | -              | 2,512     | -       | -                 | 1,616     | -       |
| Other equity securities  | 42             | 8,855     | -       | 43                | 9,442     | -       |
| Total securities available-for-sale                                | 42             | 1,233,713 | 12,924  | 43                | 1,070,231 | 12,129  |
| Mortgage servicing rights (1)                                      | -              | -         | 1,303   | -                 | -         | 985     |
| Derivative assets (1)  | -              | 671       | -       | -                 | -         | -       |
| <b>Liabilities:</b>  |                |           |         |                   |           |         |
| Derivative liabilities (2)   | \$ -           | \$ 2,761  | \$ -    | \$ -              | \$ 2,270  | \$ -    |

(1)Included in other assets in the Consolidated Statements of Financial Condition.

(2)Included in other liabilities in the Consolidated Statements of Financial Condition.

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

### Trading Securities

The Company's trading securities consist of diversified investment securities held in a grantor trust and are invested in money market and mutual funds. The fair value of these money market and mutual funds is based on quoted market prices in active exchange markets and is classified in level 1 of the fair value hierarchy. Changes in the fair value of trading securities are included in other noninterest income in the Condensed Consolidated Statements of Income.

### Securities Available-for-Sale

Except for CDOs and a hedge fund investment described below, the Company's available-for-sale securities are primarily fixed income instruments that are not quoted on an exchange, but may be traded in active markets. The fair values are based on quoted prices in active markets or market prices for similar securities obtained from external pricing services or dealer market participants and are classified in level 2 of the fair value hierarchy. Quarterly, the Company evaluates the methodologies used by its external pricing services to develop the fair values to determine whether the results of the valuations are representative of an exit price in the Company's principal markets and an appropriate representation of fair value.

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

Characteristics of CDOs and Significant Unobservable Inputs  
Used in the Valuation of CDOs as of March 31, 2013  
(Dollar amounts in thousands)

|   | CDO Number (1) |           |           |           |           |          |
|---|----------------|-----------|-----------|-----------|-----------|----------|
|   | 1              | 2         | 3         | 4         | 5         | 6        |
| Characteristics:  |                |           |           |           |           |          |
| Class (2)   | C-1            | C-1       | C-1       | B1        | C         | C        |
| Original par  | \$ 17,500      | \$ 15,000 | \$ 15,000 | \$ 15,000 | \$ 10,000 | \$ 6,500 |
| Amortized cost  | 7,140          | 5,598     | 12,377    | 13,922    | 1,317     | 6,178    |
| Fair value  | 2,846          | 278       | 3,304     | 4,350     | 543       | 1,603    |
| Lowest credit rating<br>(Moody’s)                             | Ca             | Ca        | Ca        | Ca        | C         | Ca       |
| Number of underlying<br>Issuers                               | 44             | 55        | 60        | 61        | 56        | 78       |
| Percent of Issuers<br>currently performing                    | 75.0%          | 78.2%     | 78.3%     | 52.5%     | 58.9%     | 65.4%    |
| Current deferral and<br>default percent (3)                   | 17.6%          | 16.1%     | 11.3%     | 37.7%     | 44.9%     | 29.4%    |
| Expected future deferral<br>and default<br>percent (4)        | 18.8%          | 15.8%     | 15.6%     | 27.9%     | 29.6%     | 15.3%    |
| Excess subordination<br>percent (5)                           | -              | -         | -         | -         | -         | 1.3%     |
| Discount rate risk<br>adjustment (6)                          | 14.5%          | 15.5%     | 14.5%     | 13.5%     | 14.5%     | 13.0%    |
| Significant unobservable inputs, weighted average of Issuers: |                |           |           |           |           |          |
| Probability of<br>prepayment                                  | 17.4%          | 7.7%      | 5.6%      | 9.0%      | 7.2%      | 4.4%     |
| Probability of default  | 23.0%          | 27.6%     | 22.1%     | 29.5%     | 40.5%     | 30.9%    |
| Loss given default  | 88.1%          | 90.2%     | 89.4%     | 92.6%     | 92.5%     | 94.8%    |
| Probability of deferral<br>cure                               | 44.8%          | 23.7%     | 24.1%     | 51.1%     | 39.9%     | 41.4%    |

(1)The Company has a seventh CDO, but no information is reported for that CDO since the security had an amortized cost and fair value of zero as of March 31, 2013.

(2)Class refers to the Company’s tranche within the security. In a structured investment, a tranche is one of a number of related securities offered as part of the same transaction

and relates to the order in which investors receive principal and interest payments.

- (3) Represents actual deferrals and defaults, net of recoveries, as a percent of the original collateral.
- (4) Represents expected future net deferrals and defaults, net of recoveries, as a percent of the remaining performing collateral. The probability of future defaults is derived for each Issuer based on a credit analysis. The associated assumed loss given default is based on historical default and recovery information provided by a nationally recognized credit rating agency and is assumed to be 90% for banks, 85% for insurance companies, and 100% for Issuers that have already defaulted.
- (5) Represents additional defaults that the CDO can absorb before the security experiences any credit impairment. The excess subordination percentage is calculated by dividing the amount of potential additional loss that can be absorbed (before the receipt of all expected future principal and interest payments is affected) by the total balance of performing collateral.
- (6) Cash flows are discounted at LIBOR plus this adjustment to reflect the higher risk inherent in these securities given the current market environment.

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

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

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

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

A rollforward of the carrying value of CDOs for the quarters ended March 31, 2013 and 2012 is presented in the following table.

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

|  | Quarters Ended<br>March 31, |           |
|--|-----------------------------|-----------|
|  | 2013                        | 2012      |
| Beginning balance  | \$ 12,129                   | \$ 13,394 |
| Total (loss) income:   |                             |           |
| Included in earnings (1)   | -                           | (721)     |
| Included in other comprehensive income (2)   | 795                         | 1,012     |
| Ending balance (3)   | \$ 12,924                   | \$ 13,685 |
| Change in unrealized losses recognized in earnings related to securities still held at end of period | \$ -                        | \$ (721)  |

(1) Included in net securities losses in the Condensed Consolidated Statements of Income and related to securities still held at the end of the period.

(2) Included in unrealized holding (losses) gains in the Consolidated Statements of Comprehensive Income.

(3) There were no purchases, sales, issuances, or settlements of CDOs during the periods presented.

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

#### Mortgage Servicing Rights

The Company services loans for others totaling \$156.8 million as of March 31, 2013 and \$109.7 million as of December 31, 2012. These loans are owned by third parties and are not included in the Consolidated Statements of Condition. The Company estimates the fair value of mortgage servicing rights by using a discounted cash flow analysis and classifies them in level 3 of the fair value hierarchy. Additional information regarding the Company's mortgage servicing rights can be found in Note 22, "Fair Value," in the Company's 2012 10-K.

#### Derivative Assets and Derivative Liabilities

The Company enters into interest rate swaps that are executed in the dealer market, and pricing is based on market quotes obtained from the counterparty. The market quotes were developed using market observable inputs, which primarily include LIBOR. Therefore, derivatives are classified in level 2 of the fair value hierarchy. For its derivative assets and liabilities, the Company also considers non-performance risk, including the likelihood of default by itself and its counterparties, when evaluating whether the market quotes from the counterparty are representative of an exit price. The Company also enters into derivative transactions with customers and simultaneously enters into an offsetting interest rate derivative transaction with a third party, which are valued using market consensus prices.

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

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

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

|                                     | March 31, 2013 |         |           | December 31, 2012 |         |           |
|-------------------------------------|----------------|---------|-----------|-------------------|---------|-----------|
|                                     | Level 1        | Level 2 | Level 3   | Level 1           | Level 2 | Level 3   |
| Collateral-dependent impaired loans | \$ -           | \$ -    | \$ 41,647 | \$ -              | \$ -    | \$ 61,454 |
| OREO (1)                            | -              | -       | 4,942     | -                 | -       | 11,956    |
| Assets held-for-sale (2)            | -              | -       | 1,027     | -                 | -       | 1,668     |

(1) Includes OREO and covered OREO with fair value adjustments subsequent to initial transfer.

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

## Collateral-Dependent Impaired Loans

Certain collateral-dependent impaired loans are subject to fair value adjustments to reflect the difference between the carrying value of the loans and the value of the underlying collateral. The fair values of collateral-dependent impaired loans are primarily determined by current appraised values of the underlying collateral. Circumstances may warrant an adjustment to the appraised value based on the age and/or type of appraisal, and these adjustments typically range from 0% - 20%. Generally, appraisals greater than twelve months old are adjusted to account for estimated declines in the real estate market until an updated appraisal can be obtained. In addition, the Company may adjust appraised values to account for differences in remediation strategies, such as adjusting a “stabilized” value to an “orderly liquidation” value. In certain cases, an internal valuation may be used when the underlying collateral is located in areas where comparable sales data is limited or unavailable. Accordingly, collateral-dependent impaired loans are classified in level 3 of the fair value hierarchy.

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

## OREO

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

## Assets Held-for-Sale

As of March 31, 2013, assets held-for-sale consisted of two former branches that are no longer in operation. The Company determined that the branches met the held-for-sale criteria and transferred them into the held-for-sale category at their recorded investment, which approximates fair value. Based on the valuation methods used to determine the fair value of assets held-for-sale, they are classified in level 3 of the fair value hierarchy.



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

|  | Quarters Ended<br>March 31, |           |
|--|-----------------------------|-----------|
|  | 2013                        | 2012      |
| Charged to allowance for loan and covered loan losses: |                             |           |
| Collateral-dependent impaired loans                    | \$ 6,782                    | \$ 18,740 |
| Loans held-for-sale                                    | -                           | 3,135     |
| Charged to earnings:                                   |                             |           |
| OREO   | 567                         | 690       |

### Goodwill and Other Intangible Assets

Goodwill and other intangible assets are subject to impairment testing, which requires a significant degree of management judgment and the use of significant unobservable inputs. Goodwill is tested at least annually for impairment or more often if events or circumstances between annual tests indicate that there may be impairment. If the testing resulted in impairment, the Company would have classified goodwill and other intangible assets as a level 3 nonrecurring fair value measurement. Additional information regarding goodwill, other intangible assets, and impairment policies can be found in Note 1, "Summary of Significant Accounting Policies," and Note 8, "Goodwill and Other Intangible Assets," in the Company's 2012 10-K.

### Financial Instruments Not Required to be Measured at Fair Value

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

Financial Instruments Not Required to be Measured at Fair Value  
(Dollar amounts in thousands)

|   |                                  | March 31, 2013     |            | December 31, 2012  |            |
|---|----------------------------------|--------------------|------------|--------------------|------------|
|   | Fair Value<br>Hierarchy<br>Level | Carrying<br>Amount | Fair Value | Carrying<br>Amount | Fair Value |
| Assets:                                     |                                  |                    |            |                    |            |
| Cash and due from banks                     | 1                                | \$ 95,983          | \$ 95,983  | \$ 149,420         | \$ 149,420 |
| Interest-bearing deposits in<br>other banks | 2                                | 457,333            | 457,333    | 566,846            | 566,846    |
| Securities held-to-maturity                 | 2                                | 31,443             | 32,958     | 34,295             | 36,023     |
| Net loans                                   | 3                                | 5,264,367          | 5,265,840  | 5,288,124          | 5,305,286  |
| FDIC indemnification<br>asset               | 3                                | 28,958             | 21,526     | 37,051             | 27,040     |
| Accrued interest receivable                 | 3                                | 27,985             | 27,985     | 27,535             | 27,535     |
| Investment in BOLI                          | 3                                | 206,706            | 206,706    | 206,405            | 206,405    |
| Other earning assets                        | 3                                | 9,236              | 9,920      | 9,923              | 10,640     |
| Liabilities:                                |                                  |                    |            |                    |            |

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|                              |   |              |              |              |              |
|------------------------------|---|--------------|--------------|--------------|--------------|
| Deposits                     | 2 | \$ 6,600,795 | \$ 6,602,172 | \$ 6,672,255 | \$ 6,674,510 |
| Borrowed funds               | 2 | 208,854      | 212,228      | 185,984      | 189,074      |
| Senior and subordinated debt | 1 | 214,811      | 223,231      | 214,779      | 216,686      |
| Accrued interest payable     | 2 | 6,043        | 6,043        | 2,884        | 2,884        |
| Standby letters of credit    | 2 | 748          | 748          | 740          | 740          |

Management uses various methodologies and assumptions to determine the estimated fair values of the financial instruments in the table above. The fair value estimates are made at a discrete point in time based on relevant market information and

consider management's judgments regarding future expected economic conditions, loss experience, and specific risk characteristics of the financial instruments.

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

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

**Net Loans** – Net loans includes loans, covered loans, and the allowance for loans and covered loan losses. The fair value of loans is estimated using the present value of the future cash flows of the remaining maturities of the loans. Prepayment assumptions that consider the Company's historical experience and current economic and lending conditions were included. The discount rate was based on the LIBOR yield curve with adjustments for liquidity and credit risk. The primary impact of credit risk on the fair value of the loan portfolio was accommodated through the use of the allowance for loan and covered loan losses, which is believed to represent the current fair value of estimated inherent losses for purposes of the fair value calculation.

The fair value of the covered loan portfolio is determined by discounting the estimated cash flows at a market interest rate, which is derived from LIBOR swap rates over the life of those loans. The estimated cash flows are determined using the contractual terms of the covered loans, net of any projected credit losses. For valuation purposes, these loans are placed into groups with similar characteristics and risk factors, where appropriate. The timing and amount of credit losses for each group are estimated using historical default and loss experience, current collateral valuations, borrower credit scores, and internal risk ratings. For individually significant loans or credit relationships, the estimated fair value is determined by a specific loan level review utilizing appraised values for collateral and projections of the timing and amount of cash flows.

**FDIC Indemnification Asset** - The fair value of the FDIC indemnification asset is calculated by discounting the cash flows expected to be received from the FDIC. The future cash flows are estimated by multiplying expected losses on covered loans and covered OREO by the reimbursement rates set forth in the FDIC Agreements. Improvements in estimated cash flows on covered loans and covered OREO generally result in a corresponding decrease in the fair value of the indemnification asset, while increases in expected reimbursements from the FDIC lead to an increase in the fair value of the indemnification asset.

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

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

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

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

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

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

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

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

### INTRODUCTION

The following discussion and analysis is intended to address the significant factors affecting our results of operations and financial condition for the quarters ended March 31, 2013 and 2012. When we use the terms "First Midwest," the "Company," "we," "us," and "our," we mean First Midwest Bancorp, Inc., a Delaware Corporation, and its consolidated subsidiaries. When we use the term "Bank," we are referring to our wholly owned banking subsidiary, First Midwest Bank. For your reference, a glossary of certain terms is presented on page 3 of this Form 10-Q. Management's discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes presented elsewhere in this report, as well as in our 2012 Annual Report on Form 10-K ("2012 10-K"). The results of operations for the quarter ended March 31, 2013 are not necessarily indicative of future results.

Our banking network is located primarily in suburban metropolitan Chicago with additional locations in northwest Indiana, central and western Illinois, and eastern Iowa. We provide a full range of business and retail banking and wealth management services through approximately 95 banking offices. Our primary sources of revenue are net interest income and fees from financial services provided to our customers. Our largest expenses include interest expense, compensation expense, and various other noninterest expense items.

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

- **Pre-Tax, Pre-Provision Operating Earnings** - Pre-tax, pre-provision operating earnings, a non-GAAP financial measure, reflects our operating performance before the effects of credit-related charges, securities gains, losses, and impairments, and certain unusual, infrequent, or non-recurring revenues and expenses. We believe this metric is useful because it helps investors to assess the Company's operating performance. A reconciliation of pre-tax, pre-provision operating earnings to GAAP can be found in Table 1.
- **Net Interest Income** - Net interest income, our primary source of revenue, equals the difference between interest income and fees earned on interest-earning assets and interest expense incurred on interest-bearing liabilities.
- **Net Interest Margin** - Net interest margin equals net interest income divided by total average interest-earning assets.
- **Noninterest Income** - Noninterest income is the income we earn from operating revenues, BOLI and other income, and non-operating revenues.
- **Asset Quality** - Asset quality represents an estimation of the quality of our loan portfolio, including an assessment of the credit risk related to existing and potential loss exposure, and can be evaluated using a number of quantitative measures, such as non-performing loans to total loans.
- **Regulatory Capital** - Our regulatory capital is classified in one of the following two tiers: (i) Tier 1 capital consists of common equity, retained earnings, and qualifying trust-preferred securities, less goodwill and most intangible assets and (ii) Tier 2 capital includes qualifying subordinated debt and the allowance for credit losses, subject to limitations.

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



## PERFORMANCE OVERVIEW

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

|  | Quarters Ended<br>March 31, |           |          |
|--|-----------------------------|-----------|----------|
|  | 2013                        | 2012      | % Change |
| <b>Operating Results</b>   |                             |           |          |
| Interest income  | \$ 71,045                   | \$ 75,268 | (5.6%)   |
| Interest expense   | (7,197)                     | (10,086)  | (28.6%)  |
| Net interest income  | 63,848                      | 65,182    | (2.0%)   |
| Operating revenue  | 26,539                      | 23,975    | 10.7%    |
| Other noninterest income, excluding certain non-operating noninterest income items | 1,036                       | 1,401     | (26.1%)  |
| Noninterest expense, excluding certain non-operating noninterest expense items     | (62,303)                    | (61,995)  | 0.5%     |
| Pre-tax, pre-provision operating earnings (1)                                      | 29,120                      | 28,563    | 2.0%     |
| Provision for loan and covered loan losses   | (5,674)                     | (18,210)  | (68.8%)  |
| Net losses on securities sales   | -                           | (206)     | N/M      |
| Securities impairment losses   | -                           | (737)     | N/M      |
| Gain on early extinguishment of debt   | -                           | 256       | N/M      |
| OREO valuation adjustments   | (567)                       | (690)     | (17.8%)  |
| Net (losses) gains on OREO sales   | (214)                       | 387       | N/M      |
| Adjusted amortization of FDIC indemnification asset                                | (750)                       | -         | N/M      |
| Severance-related costs  | (980)                       | (315)     | N/M      |
| Income before income tax   | 20,935                      | 9,048     | N/M      |
| Income tax expense   | (6,293)                     | (1,156)   | N/M      |
| Net income   | 14,642                      | 7,892     | 85.5%    |
| Net income applicable to non-vested restricted shares                              | (212)                       | (139)     | 52.5%    |
| Net income applicable to common shares   | \$ 14,430                   | \$ 7,753  | 86.1%    |
| Weighted average diluted shares outstanding  | 73,874                      | 73,505    |          |
| Diluted earnings per common share  | \$ 0.20                     | \$ 0.11   |          |
| <b>Performance Ratios (2)</b>  |                             |           |          |
| Return on average common equity  | 6.17%                       | 3.21%     |          |
| Return on average assets   | 0.74%                       | 0.40%     |          |
| Net interest margin – tax equivalent   | 3.77%                       | 3.88%     |          |
| Efficiency ratio   | 66.50%                      | 64.62%    |          |

N/M – Not meaningful.

(1) Our accounting and reporting policies conform to GAAP and general practices within the banking industry. As a supplement to GAAP, we provided this non-GAAP performance result, which we believe is useful because it assists investors in evaluating our operating performance. This non-GAAP financial measure should not be considered an alternative



to GAAP and may not be comparable to similar non-GAAP measures used by other companies.

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

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|  | March 31,<br>2013 | December 31,<br>2012 | March 31,<br>2012 | March 31, 2013<br>Change From<br>December 31,<br>2012 | March 31,<br>2012 |
|--|-------------------|----------------------|-------------------|---|-------------------|
| <b>Balance Sheet Highlights</b>          |                   |                      |                   |   |                   |
| Total assets                             | \$ 8,055,819      | \$ 8,099,839         | \$ 7,988,002      | \$ (44,020)   | \$ 67,817         |
| Total loans, excluding covered loans     | 5,175,271         | 5,189,676            | 5,137,328         | (14,405)  | 37,943            |
| Total loans, including covered loans     | 5,361,958         | 5,387,570            | 5,388,704         | (25,612)  | (26,746)          |
| Total deposits                           | 6,600,795         | 6,672,255            | 6,486,363         | (71,460)  | 114,432           |
| Transactional deposits                   | 5,251,715         | 5,272,307            | 4,897,093         | (20,592)  | 354,622           |
| Loans-to-deposits ratio                  | 81.2%             | 80.7%                | 83.1%             |   |                   |
| Transactional deposits to total deposits | 79.6%             | 79.0%                | 75.5%             |   |                   |

|  | March 31,<br>2013 | December 31,<br>2012 | March 31,<br>2012 | March 31, 2013<br>Change From<br>December 31,<br>2012 | March 31,<br>2012 |
|--|-------------------|----------------------|-------------------|---|-------------------|
| <b>Asset Quality Highlights</b>                          |                   |                      |                   |   |                   |
| (1)  |                   |                      |                   |   |                   |
| Non-accrual loans  | \$ 95,397         | \$ 84,534            | \$ 199,545        | \$ 10,863   | \$ (104,148)      |
| 90 days or more past due loans (still accruing interest) | 5,552             | 8,689                | 7,674             | (3,137)   | (2,122)           |
| Total non-performing loans                               | 100,949           | 93,223               | 207,219           | 7,726   | (106,270)         |
| TDRs (still accruing interest)                           | 2,587             | 6,867                | 2,076             | (4,280)   | 511               |
| OREO   | 39,994            | 39,953               | 35,276            | 41  | 4,718             |
| Total non-performing assets                              | \$ 143,530        | \$ 140,043           | \$ 244,571        | \$ 3,487  | \$ (101,041)      |
| 30-89 days past due loans (still accruing interest)      | \$ 22,222         | \$ 22,666            | \$ 21,241         | \$ (444)  | \$ 981            |
| Allowance for credit losses                              | 88,230            | 90,750               | 117,771           | (2,520)   | (29,541)          |
| Allowance for credit losses as a percent of loans        | 1.70%             | 1.75%                | 2.29%             |   |                   |
| Allowance for credit losses to non-accrual loans         | 92.49%            | 107.35%              | 59.02%            |   |                   |

(1)Excludes covered loans and covered OREO. For a discussion of covered assets, which consist of covered loans, covered OREO, and the related FDIC indemnification asset, refer to Note 5 of "Notes to Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q. Asset quality, including covered loans and covered OREO, is included

in the “Loan Portfolio and Credit Quality” section below.

Net income applicable to common shareholders for the first quarter of 2013 was \$14.4 million, or \$0.20 per share, compared to \$7.8 million, or \$0.11 per share, for the first quarter of 2012.

Pre-tax, pre-provision operating earnings of \$29.1 million for the first quarter of 2013 increased from \$28.6 million for the first quarter of 2012. The increase resulted primarily from growth in mortgage banking income and wealth management fees, which more than offset the decline in net interest income. A discussion of noninterest income and noninterest expense is presented in the following section titled “Earnings Performance.”

Non-performing assets, excluding covered loans and covered OREO, were \$143.5 million at March 31, 2013, increasing from \$140.0 million at December 31, 2012 and decreasing from \$244.6 million at March 31, 2012. Compared to March 31, 2012, the significant decline in non-performing assets resulted from the disposal of \$84.5 million of original carrying value of certain non-accrual loans through bulk loan sales completed during the fourth quarter of 2012, in addition to other accelerated credit remediation actions taken during the third and fourth quarters of 2012. The increase in non-performing assets from December 31, 2012 was driven by an increase in non-accrual loans, which was mitigated by a decline in TDRs from the return of \$5.0 million to performing status and a decrease in loans 90 days or more past due. Refer to the “Loan Portfolio and Credit Quality” section below for further discussion of TDRs, 90 days past due loans, and OREO.

## EARNINGS PERFORMANCE

### Net Interest Income

Net interest income is our primary source of revenue and is impacted by interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities. The accounting policies for the recognition of interest income on loans, securities, and other interest-earning assets are presented in Note 1 to the Consolidated Financial Statements of our 2012 10-K.

Our accounting and reporting policies conform to GAAP and general practices 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 returns on taxable interest-earning assets. Although we believe that these non-GAAP financial measures enhance investors' understanding of our business and performance, they should not be considered an alternative to GAAP. The effect of this adjustment is at the bottom of Table 2.

Table 2 summarizes our average interest-earning assets and interest-bearing liabilities for the quarters ended March 31, 2013 and 2012, the related interest income and interest expense for each earning asset category and funding source, and the average interest rates earned and paid. Table 2 also details differences in interest income and expense from the prior year and the extent to which any changes are attributable to volume and rate fluctuations.

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

|                                       | Quarters Ended March 31, |          |                |                    |          |                | Attribution of Change<br>in Net Interest Income (1) |                |         |
|---------------------------------------|--------------------------|----------|----------------|--------------------|----------|----------------|---|----------------|---------|
|                                       | 2013                     |          |                | 2012               |          |                |   |                |         |
|                                       | Average<br>Balance       | Interest | Yield/<br>Rate | Average<br>Balance | Interest | Yield/<br>Rate | Volume  | Yield/<br>Rate | Total   |
| Assets:                               |                          |          |                |                    |          |                |   |                |         |
| Other                                 |                          |          |                |                    |          |                |   |                |         |
| interest-earning assets               | \$ 584,170               | \$ 434   | 0.30%          | \$ 449,788         | \$ 275   | 0.25%          | \$ 92   | \$ 67          | \$ 159  |
| Trading securities                    | 14,357                   | 36       | 1.00%          | 14,585             | 36       | 0.99%          | -   | -              | -       |
| Investment securities                 |                          |          |                |                    |          |                |   |                |         |
| (2)                                   | 1,175,063                | 9,940    | 3.38%          | 1,163,338          | 11,734   | 4.03%          | 119   | (1,913)        | (1,794) |
| FHLB and Federal                      |                          |          |                |                    |          |                |   |                |         |
| Reserve Bank                          |                          |          |                |                    |          |                |   |                |         |
| stock                                 | 47,232                   | 339      | 2.87%          | 52,531             | 330      | 2.51%          | (21)  | 30             | 9       |
| Loans, excluding                      |                          |          |                |                    |          |                |   |                |         |
| covered loans (2)                     | 5,148,343                | 60,001   | 4.73%          | 5,089,286          | 61,983   | 4.90%          | 320   | (2,302)        | (1,982) |
| Covered                               |                          |          |                |                    |          |                |   |                |         |
| interest-earning assets               |                          |          |                |                    |          |                |   |                |         |
| (3)                                   | 223,691                  | 3,449    | 6.25%          | 318,569            | 4,202    | 5.31%          | (1,741)   | 988            | (753)   |
| Total loans                           | 5,372,034                | 63,450   | 4.79%          | 5,407,855          | 66,185   | 4.92%          | (1,421)   | (1,314)        | (2,735) |
| Total                                 |                          |          |                |                    |          |                |   |                |         |
| interest-earning assets               |                          |          |                |                    |          |                |   |                |         |
| (2)                                   | 7,192,856                | 74,199   | 4.18%          | 7,088,097          | 78,560   | 4.45%          | (1,231)   | (3,130)        | (4,361) |
| Cash and due from                     |                          |          |                |                    |          |                |   |                |         |
| banks                                 | 110,073                  |          |                | 109,717            |          |                |   |                |         |
| Allowance for loan and                |                          |          |                |                    |          |                |   |                |         |
| covered                               |                          |          |                |                    |          |                |   |                |         |
| loan losses                           | (99,086)                 |          |                | (123,667)          |          |                |   |                |         |
| Other assets                          | 867,458                  |          |                | 883,044            |          |                |   |                |         |
| Total assets                          | \$ 8,071,301             |          |                | \$ 7,957,191       |          |                |   |                |         |
| Liabilities and Stockholders' Equity: |                          |          |                |                    |          |                |   |                |         |
| Savings deposits                      | \$ 1,107,213             | 247      | 0.09%          | \$ 995,955         | 283      | 0.11%          | 40  | (76)           | (36)    |
| NOW accounts                          | 1,145,482                | 175      | 0.06%          | 1,051,870          | 218      | 0.08%          | 22  | (65)           | (43)    |
| Money market deposits                 | 1,251,235                | 470      | 0.15%          | 1,184,316          | 521      | 0.18%          | 31  | (82)           | (51)    |
| Time deposits                         | 1,374,529                | 2,428    | 0.72%          | 1,621,926          | 4,491    | 1.11%          | (611)   | (1,452)        | (2,063) |
| Borrowed funds                        | 199,891                  | 442      | 0.90%          | 203,548            | 515      | 1.02%          | (9)   | (64)           | (73)    |
| Senior and                            |                          |          |                |                    |          |                |   |                |         |
| subordinated debt                     | 214,796                  | 3,435    | 6.49%          | 248,232            | 4,058    | 6.57%          | (537)   | (86)           | ( 623)  |
| Total                                 |                          |          |                |                    |          |                |   |                |         |
| interest-bearing                      |                          |          |                |                    |          |                |   |                |         |
| liabilities                           | 5,293,146                | 7,197    | 0.55%          | 5,305,847          | 10,086   | 0.76%          | (1,064)   | (1,825)        | (2,889) |
| Demand deposits                       | 1,740,825                |          |                | 1,591,198          |          |                |   |                |         |
| Other liabilities                     | 89,270                   |          |                | 89,778             |          |                |   |                |         |
| Stockholders' equity -                |                          |          |                |                    |          |                |   |                |         |
| common                                | 948,060                  |          |                | 970,368            |          |                |   |                |         |
| Total liabilities and                 | \$ 8,071,301             |          |                | \$ 7,957,191       |          |                |   |                |         |

|                     |           |       |  |           |       |          |            |            |
|---------------------|-----------|-------|--|-----------|-------|----------|------------|------------|
| stockholders'       |           |       |  |           |       |          |            |            |
| equity              |           |       |  |           |       |          |            |            |
| Net interest        |           |       |  |           |       |          |            |            |
| income/margin (2)   | \$ 67,002 | 3.77% |  | \$ 68,474 | 3.88% | \$ (167) | \$ (1,305) | \$ (1,472) |
| Net interest income |           |       |  |           |       |          |            |            |
| (GAAP)              | \$ 63,848 |       |  | \$ 65,182 |       |          |            |            |
| Tax equivalent      |           |       |  |           |       |          |            |            |
| adjustment          | 3,154     |       |  | 3,292     |       |          |            |            |
| Tax-equivalent net  |           |       |  |           |       |          |            |            |
| interest            |           |       |  |           |       |          |            |            |
| income              | \$ 67,002 |       |  | \$ 68,474 |       |          |            |            |

- (1) For purposes of this table, changes which are not due solely to volume changes or rate changes are allocated to these categories on the basis of the percentage relationship of each to the sum of the two.
- (2) Interest income and yields are presented on a tax-equivalent basis, assuming a federal income tax rate of 35%.
- (3) Covered interest-earning assets consist of loans acquired through FDIC-assisted transactions with loss share agreements and the related FDIC indemnification asset. For additional discussion, please refer to Note 5 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.

Average interest-earning assets for the first quarter of 2013 increased \$104.8 million from the first quarter of 2012. Compared to the prior year quarter, growth in the loan portfolio, primarily in the commercial and industrial, agricultural, and 1-4 family categories, was offset by the disposal of \$172.5 million of original carrying value of certain non-performing and performing potential problem loans through bulk loan sales completed during the fourth quarter of 2012 ("the bulk loan sales"). This loan growth, coupled with the rise in investment securities and other interest-earning assets, more than offset the decrease in covered interest-earning assets.

For the first quarter of 2013, tax-equivalent net interest income decreased \$1.5 million, or 2.1%, and tax-equivalent net interest margin declined 11 basis points compared to the same period in 2012. These decreases were due primarily to lower

yields earned on the Company's investment securities and loans, reflecting a year-over-year decline in interest rates, partially offset by the lower cost of time deposits.

Interest earned on covered loans is generally recognized through the accretion of the discount on expected future cash flows. The change in the yield on covered interest-earning assets from the first quarter of 2012 was driven by revised estimates of future cash flows estimated to be received from borrowers and the FDIC under the FDIC Agreements.

#### Noninterest Income

A summary of noninterest income for the quarters ended March 31, 2013 and 2012 is presented in the following table.

Table 3  
Noninterest Income Analysis  
(Dollar amounts in thousands)

|  | Quarters Ended<br>March 31, |           | % Change |
|--|-----------------------------|-----------|----------|
|  | 2013                        | 2012      |          |
| Service charges on deposit accounts          | \$ 8,677                    | \$ 8,660  | 0.2%     |
| Card-based fees (1)                          | 5,076                       | 5,020     | 1.1%     |
| Wealth management fees                       | 5,839                       | 5,392     | 8.3%     |
| Mortgage banking income                      | 1,966                       | -         | N/M      |
| Merchant servicing fees                      | 2,554                       | 2,322     | 10.0%    |
| Other service charges, commissions, and fees | 1,646                       | 1,198     | 37.4%    |
| Other income (2)(6)                          | 781                         | 1,383     | (43.5%)  |
| Total operating revenues                     | 26,539                      | 23,975    | 10.7%    |
| Net trading gains (3)                        | 1,036                       | 1,401     | (26.1%)  |
| Net losses on securities sales (4)           | -                           | (206)     | N/M      |
| Securities impairment losses (4)             | -                           | (737)     | N/M      |
| Gain on early extinguishment of debt (5)(6)  | -                           | 256       | N/M      |
| Total noninterest income                     | \$ 27,575                   | \$ 24,689 | 11.7%    |

N/M – Not meaningful.

- (1) Card-based fees consist of debit and credit card interchange fees for processing transactions as well as various fees on both customer and non-customer automated teller machine ("ATM") and point-of-sale transactions processed through the ATM and point-of-sale networks.
- (2) Other income consists of various items, including BOLI income, safe deposit box rentals, miscellaneous recoveries, and gains on the sales of various assets.
- (3) Net trading gains result from changes in the fair value of diversified investment securities held in a grantor trust under deferred compensation arrangements and are substantially offset by nonqualified plan expense for each period presented.
- (4) For a discussion of these items, see the "Investment Portfolio Management" section below.
- (5) The gain on early extinguishment of debt relates to the repurchase and retirement of approximately \$21 million in trust preferred junior subordinated debentures.
- (6) These line items are included in other income in the Condensed Consolidated Statements of Income.

Total noninterest income increased 11.7% for the first quarter of 2013 compared to the first quarter of 2012, reflecting growth across several categories of operating revenues.

Operating revenues for the first quarter of 2013 increased 10.7% from the prior year quarter, driven primarily by mortgage banking income from the sale of \$54.0 million of mortgage loans, growth in other service charges, commissions, fees from income generated by interest rate derivative transactions, and a rise in wealth management fees. The rise in wealth management fees from the first quarter of 2012 resulted from higher levels of assets under management driven by new account relationships and improved market performance.

Merchant servicing fees increased compared to the first quarter of 2012 from higher processing volumes by certain large merchants. There is a corresponding increase in merchant card expense in the following table.



## Noninterest Expense

The following table presents the components of noninterest expense for the quarters ended March 31, 2013 and 2012.

Table 4  
Noninterest Expense Analysis  
(Dollar amounts in thousands)

|   | Quarters Ended<br>March 31, |           |          |
|---|-----------------------------|-----------|----------|
|   | 2013                        | 2012      | % Change |
| Compensation expense:                                   |                             |           |          |
| Salaries and wages (1)(6)                               | \$ 27,839                   | \$ 25,699 | 8.3%     |
| Nonqualified plan expense (2)(6)                        | 1,124                       | 1,558     | (27.9%)  |
| Retirement and other employee benefits (1)              | 7,606                       | 6,793     | 12.0%    |
| Total compensation expense                              | 36,569                      | 34,050    | 7.4%     |
| Net OREO expense:                                       |                             |           |          |
| OREO valuation adjustments                              | 567                         | 690       | (17.8%)  |
| Net losses (gains) on OREO sales (3)                    | 214                         | (387)     | N/M      |
| Net OREO operating expense (4)                          | 1,018                       | 1,561     | (34.8%)  |
| Net OREO expense  | 1,799                       | 1,864     | (3.5%)   |
| Professional services:                                  |                             |           |          |
| Loan remediation costs                                  | 2,139                       | 2,788     | (23.3%)  |
| Other professional services (1)                         | 3,079                       | 2,841     | 8.4%     |
| Total professional services                             | 5,218                       | 5,629     | (7.3%)   |
| Net occupancy expense                                   | 5,980                       | 6,205     | (3.6%)   |
| Equipment expense                                       | 2,167                       | 2,126     | 1.9%     |
| Technology and related costs                            | 2,483                       | 2,858     | (13.1%)  |
| FDIC premiums   | 1,742                       | 1,719     | 1.3%     |
| Advertising and promotions (7)                          | 1,410                       | 870       | 62.1%    |
| Merchant card expense (7)                               | 2,044                       | 1,796     | 13.8%    |
| Cardholder expenses (7)                                 | 929                         | 1,042     | (10.8%)  |
| Adjusted amortization of FDIC indemnification asset (7) | 750                         | -         | N/M      |
| Other expenses (7)                                      | 3,723                       | 4,454     | (16.4%)  |
| Total noninterest expense                               | \$ 64,814                   | \$ 62,613 | 3.5%     |
| Full-time equivalent employees                          | 1,693                       | 1,757     | (3.6%)   |
| Efficiency ratio (5)                                    | 66.50%                      | 64.62%    |          |

N/M – Not meaningful.

- (1) In the first quarter of 2013, the Company recorded a \$980,000 charge for severance-related costs that included \$811,000 in salaries and wages, \$64,000 in retirement and other employee benefits, and \$105,000 in other professional services.
- (2) Nonqualified plan expense results from changes in the Company's obligation to participants under deferred compensation agreements.
- (3) For a discussion of sales of OREO properties, refer to the "Non-performing Assets and Potential Problem Loans" section below.
- (4) Net OREO operating expense consists of real estate taxes, commissions paid on sales, insurance, and maintenance, net of any rental income.

- (5)The efficiency ratio expresses noninterest expense, excluding OREO expense, as a percentage of tax-equivalent net interest income plus total operating revenues and the tax-equivalent adjustment on the increase in BOLI.
- (6)These expenses are included in salaries and wages in the Condensed Consolidated Statements of Income.
- (7)These line items are included in other expenses in the Condensed Consolidated Statements of Income.

Total noninterest expense for the first quarter of 2013 increased 3.5% from the first quarter of 2012.

The increase in salaries and wages compared to the prior period was driven primarily by severance expense of \$811,000, along with annual merit increases, an increase in incentive compensation, and a decrease in deferred salaries. Management expects to recover the severance expense over the next two quarters in reduced salaries and wages.

Retirement and other employee benefits increased from the quarter ended March 31, 2012 from higher pension expense.

The decline in OREO expense from the first quarter of 2012 resulted primarily from lower valuation adjustments and real estate tax expenses. These decreases were offset by losses realized on the sale of OREO properties in the first quarter of 2013 compared to gains on sales during the first quarter of 2012. Proceeds on sales of OREO were approximately 94% and 103% of carrying value for the quarters ended March 31, 2013 and 2012, respectively.

Compared to the first quarter of 2012, loan remediation costs decreased 23.3%. Improved credit quality driven by management's accelerated credit remediation actions in the third and fourth quarters of 2012 resulted in lower legal expenses and appraisal costs related to performing potential problem loans. In addition, the positive variance was also impacted by lower servicing costs for our covered loan portfolio.

Other professional services increased from the prior year quarter due to severance-related costs and higher legal fees.

The increase in advertising and promotions expense was driven by certain marketing initiatives during the first quarter of 2013.

The adjusted amortization of the FDIC indemnification asset results from changes in the timing and amount of future cash flows expected to be received from the FDIC under loss sharing agreements based on management's periodic estimates of future cash flows on covered loans.

The decline in other expenses compared to the prior quarter is primarily attributed to a \$500,000 reduction in the reserve for unfunded commitments during the first quarter of 2013.

#### Income Taxes

Our provision for income taxes includes both federal and state income tax expense. An analysis of the provision for income taxes is detailed in the following table.

Table 5  
Income Tax Expense Analysis  
(Dollar amounts in thousands)

|                                  | Quarters Ended<br>March 31, |          |
|----------------------------------|-----------------------------|----------|
|                                  | 2013                        | 2012     |
| Income before income tax expense | \$ 20,935                   | \$ 9,048 |
| Income tax expense:              |                             |          |
| Federal income tax expense       | \$ 4,360                    | \$ 845   |
| State income tax expense         | 1,933                       | 311      |
| Total income tax expense         | \$ 6,293                    | \$ 1,156 |
| Effective income tax rate        | 30.1%                       | 12.8%    |

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

Income tax expense was \$6.3 million for the first quarter of 2013 compared to \$1.2 million for the first quarter of 2012. The increase in income tax expense resulted primarily from higher first quarter 2013 income subject to tax at statutory rates. This increase in taxable income in relation to pre-tax income also resulted in a higher effective tax rate in the first quarter of 2013.

Our accounting policies for the recognition of income taxes in the Consolidated Statements of Financial Condition and Income are included in Notes 1 and 14 to the Consolidated Financial Statements of our 2012 10-K.

## FINANCIAL CONDITION

### Investment Portfolio Management

Securities that we have the positive intent and ability to hold until maturity are classified as securities held-to-maturity and are accounted for using historical cost, adjusted for amortization of premiums and accretion of discounts. Trading securities are carried at fair value with changes in fair value included in other noninterest income. Our trading securities consist of securities held in a grantor trust for our nonqualified deferred compensation plan and are not considered part of the traditional investment portfolio. All other securities are classified as securities available-for-sale and are carried at fair value.

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

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

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

|                           | March 31, 2013 |                               |                |                           | December 31, 2012 |                               |                |                           |
|---------------------------|----------------|-------------------------------|----------------|---------------------------|-------------------|-------------------------------|----------------|---------------------------|
|                           | Fair Value     | Net Unrealized (Losses) Gains | Amortized Cost | % of Total Amortized Cost | Fair Value        | Net Unrealized (Losses) Gains | Amortized Cost | % of Total Amortized Cost |
| <b>Available-for-Sale</b> |                |                               |                |                           |                   |                               |                |                           |
| U.S. agency securities    | \$ 505         | \$ -                          | \$ 505         | -                         | \$ 508            | \$ -                          | \$ 508         | -                         |
| CMOs                      | 545,033        | 4,256                         | 540,777        | 42.3%                     | 400,383           | 3,237                         | 397,146        | 35.6%                     |
| Other MBSs                | 150,074        | 4,823                         | 145,251        | 11.4%                     | 122,900           | 5,115                         | 117,785        | 10.6%                     |
| Municipal securities      | 511,306        | 20,318                        | 490,988        | 38.4%                     | 520,043           | 24,137                        | 495,906        | 44.5%                     |
| CDOs                      | 12,924         | (33,608)                      | 46,532         | 3.6%                      | 12,129            | (34,404)                      | 46,533         | 4.2%                      |
| Corporate debt securities | 15,428         | 2,424                         | 13,004         | 1.0%                      | 15,339            | 2,333                         | 13,006         | 1.2%                      |
| Equity securities         | 11,409         | 1,600                         | 9,809          | 0.8%                      | 11,101            | 1,411                         | 9,690          | 0.8%                      |
| Total available-for-sale  | 1,246,679      | (187)                         | 1,246,866      | 97.5%                     | 1,082,403         | 1,829                         | 1,080,574      | 96.9%                     |
| <b>Held-to-Maturity</b>   |                |                               |                |                           |                   |                               |                |                           |
| Municipal securities      | 32,958         | 1,515                         | 31,443         | 2.5%                      | 36,023            | 1,728                         | 34,295         | 3.1%                      |
| Total securities          | \$ 1,279,637   | \$ 1,328                      | \$ 1,278,309   | 100.0%                    | \$ 1,118,426      | \$ 3,557                      | \$ 1,114,869   | 100.0%                    |

|                           | March 31, 2013         |                  |                       | December 31, 2012      |                  |                       |
|---------------------------|------------------------|------------------|-----------------------|------------------------|------------------|-----------------------|
|                           | Effective Duration (1) | Average Life (2) | Yield to Maturity (3) | Effective Duration (1) | Average Life (2) | Yield to Maturity (3) |
| <b>Available-for-Sale</b> |                        |                  |                       |                        |                  |                       |
| U.S. agency securities    | 0.73%                  | 0.75             | 0.20%                 | 0.90%                  | 0.92             | 0.20%                 |
| CMOs                      | 2.97%                  | 3.61             | 1.13%                 | 2.22%                  | 2.93             | 1.19%                 |
| Other MBSs                | 2.82%                  | 4.09             | 2.22%                 | 1.97%                  | 3.62             | 2.79%                 |
| Municipal securities      | 4.66%                  | 3.65             | 5.56%                 | 4.49%                  | 3.69             | 5.56%                 |
| CDOs                      | 0.25%                  | 8.31             | 0.00%                 | 0.25%                  | 8.36             | 0.00%                 |
| Corporate debt securities | 5.44%                  | 7.88             | 6.38%                 | 5.51%                  | 8.09             | 6.37%                 |
| Equity securities         | N/A                    | N/A              | 0.00%                 | N/A                    | N/A              | 0.00%                 |
| Total available-for-sale  | 3.54%                  | 3.90             | 3.00%                 | 3.20%                  | 3.65             | 3.37%                 |
| <b>Held-to-Maturity</b>   |                        |                  |                       |                        |                  |                       |
| Municipal securities      | 5.44%                  | 8.15             | 4.58%                 | 6.30%                  | 10.53            | 5.26%                 |
| Total securities          | 3.59%                  | 4.00             | 3.04%                 | 3.29%                  | 3.86             | 3.43%                 |

(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 increase or decrease in

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 since those values will be influenced by a number of factors.

- (2) Average life is presented in years and represents the weighted-average time to receive all future cash flows using the dollar amount of principal paydowns, including estimated principal prepayments, as the weighting factor.
- (3) Yields on municipal securities are reflected on a tax-equivalent basis, assuming a federal income tax rate of 35%.

#### Portfolio Composition

As of March 31, 2013, our securities portfolio totaled \$1.3 billion, an increase of 14.4% compared to December 31, 2012. During the first quarter of 2013, available-for-sale securities purchases of \$232.7 million more than offset \$63.8 million in maturities and \$2.7 million in premium amortization. CMOs grew 36.1% from December 31, 2012 due to the redeployment of cash and cash equivalents to take advantage of the interest rate environment during the first quarter of 2013. Our available-for-sale portfolio is comprised of 96.8% in U.S. agency securities, municipal securities, CMOs, and other MBSs, as of March

31, 2013. The remainder of the portfolio is comprised of seven CDOs with a total fair value of \$12.9 million and miscellaneous other securities with fair values equaling \$26.8 million.

Investments in municipal securities comprised 41.0%, or \$511.3 million, of the total available-for-sale securities portfolio at March 31, 2013 and declined 1.7% from \$520.0 million at December 31, 2012. The majority consists of general obligations of local municipalities. Our municipal securities portfolio has historically experienced very low default rates and provided a predictable cash flow.

The average life and effective duration of our available-for-sale securities portfolio as of March 31, 2013 are elevated from the December 31, 2012 metrics due primarily to purchases of CMOs during the quarter. The decline in the yield to maturity from December 31, 2012 was impacted by purchases and repricing of securities in the CMO and other MBSs portfolios at lower interest rates.

#### Securities Gains and Losses

We had no securities gains or losses for the first quarter of 2013. Net securities losses were \$943,000 for the first quarter of 2012, which included an OTTI charge of \$642,000 on a single CDO.

#### Unrealized Gains and Losses

Unrealized gains and losses on securities available-for-sale represent the difference between the aggregate cost and fair value of the portfolio. These amounts are presented in the Consolidated Statements of Comprehensive Income and reported as a separate component of stockholders' equity in accumulated other comprehensive loss on an after-tax basis. This balance sheet component will fluctuate as current market interest rates and conditions change and affect the aggregate fair value of the portfolio. Net unrealized losses at March 31, 2013 were \$187,000 compared to net unrealized gains of \$1.8 million at December 31, 2012.

As of March 31, 2013, gross unrealized gains in the available-for-sale municipal securities portfolio totaled \$21.5 million, and gross unrealized losses were \$1.2 million, resulting in a net unrealized gain of \$20.3 million compared to a net unrealized gain of \$24.1 million as of December 31, 2012. Substantially all of these securities carry investment grade ratings with the majority supported by the general revenues of the issuing governmental entity and supported by third-party bond insurance or other types of credit enhancement. We do not believe the unrealized loss on any of these securities represents an OTTI.

Our investments in CDOs are supported by the credit of the underlying banks and insurance companies. The unrealized loss on these securities declined \$796,000 since December 31, 2012. The unrealized loss reflects the difference between amortized cost and fair value that we determined did not relate to credit and reflects the illiquid nature of these particular investments. We do not believe the unrealized losses on the CDOs as of March 31, 2013 represent OTTI related to credit deterioration. In addition, we do not intend to sell the CDOs with unrealized losses, and we do not believe it is more likely than not that we will be required to sell them before recovery of their amortized cost bases, which may be at maturity. Our estimation of fair values for the CDOs was based on discounted cash flow analyses as described in Note 11 of "Notes to the Condensed Consolidated Financial Statements," in Part I, Item 1 of this Form 10-Q.

CMOs and other MBSs 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 March 31, 2013 represents OTTI since the unrealized losses are not attributed to credit quality, but rather to changes in interest rates and temporary market movements.





## LOAN PORTFOLIO AND CREDIT QUALITY

## Loans Held-for-Investment

Our loan portfolio is comprised of both corporate and consumer loans with corporate loans representing 86.9% of total loans, excluding covered loans, at March 31, 2013. Consistent with our emphasis on relationship banking, the majority of our loans are made to our multi-relationship customers.

Table 7  
Loan Portfolio  
(Dollar amounts in thousands)

|                                      | March 31,<br>2013 | % of<br>Total | December 31,<br>2012 | % of<br>Total | Annualized<br>% Change |
|--------------------------------------|-------------------|---------------|----------------------|---------------|------------------------|
| Commercial and industrial            | \$ 1,659,872      | 32.1%         | \$ 1,631,474         | 31.5%         | 7.0%                   |
| Agricultural                         | 274,991           | 5.3%          | 268,618              | 5.2%          | 9.5%                   |
| Commercial real estate:              |                   |               |                      |               |                        |
| Office                               | 465,279           | 9.0%          | 474,717              | 9.1%          | (8.0%)                 |
| Retail                               | 385,413           | 7.4%          | 368,796              | 7.1%          | 18.0%                  |
| Industrial                           | 493,564           | 9.5%          | 489,678              | 9.4%          | 3.2%                   |
| Multi-family                         | 298,117           | 5.8%          | 285,481              | 5.5%          | 17.7%                  |
| Residential construction             | 54,032            | 1.0%          | 61,462               | 1.2%          | (48.4%)                |
| Commercial construction              | 122,210           | 2.4%          | 124,954              | 2.4%          | (8.8%)                 |
| Other commercial real estate         | 743,076           | 14.4%         | 773,121              | 14.9%         | (15.5%)                |
| Total commercial real estate         | 2,561,691         | 49.5%         | 2,578,209            | 49.6%         | (2.6%)                 |
| Total corporate loans                | 4,496,554         | 86.9%         | 4,478,301            | 86.3%         | 1.6%                   |
| Home equity                          | 379,352           | 7.3%          | 390,033              | 7.5%          | (11.0%)                |
| 1-4 family mortgages                 | 263,286           | 5.1%          | 282,948              | 5.5%          | (27.8%)                |
| Installment loans                    | 36,079            | 0.7%          | 38,394               | 0.7%          | (24.1%)                |
| Total consumer loans                 | 678,717           | 13.1%         | 711,375              | 13.7%         | (18.4%)                |
| Total loans, excluding covered loans | 5,175,271         | 100.0%        | 5,189,676            | 100.0%        | (1.1%)                 |
| Covered loans (1)                    | 186,687           |               | 197,894              |               | (22.7%)                |
| Total loans                          | \$ 5,361,958      |               | \$ 5,387,570         |               | (1.9%)                 |

(1)For a detailed discussion of our covered loan portfolio, refer to Notes 1 and 5 of “Notes to the Condensed Consolidated Financial Statements” in Part I, Item 1 of this Form 10-Q.

Total loans, excluding covered loans, of \$5.2 billion as of March 31, 2013 remained stable compared to December 31, 2012. The Company experienced annualized growth of 7.0% in the commercial and industrial category, 9.5% in agricultural lending, 18.0% in retail real estate loans, and 17.7% in multi-family loans from December 31, 2012. This growth was offset by continued declines in the other commercial real estate and the residential construction portfolios.

Strong annualized growth in the commercial and industrial, agricultural, retail, and multi-family loan categories benefitted from our targeted portfolio distribution efforts. In addition, sales personnel have been focused on expansion into specialized lending areas, such as agribusiness and asset-based lending, which contributed to the increases.

During the first quarter of 2013, we sold \$54.0 million of 1-4 family mortgage loans to take advantage of favorable pricing in the secondary market. This contributed to the decrease in the consumer portfolio compared to the prior quarter since \$41.9 million of these mortgages were outstanding at December 31, 2012. We continue to generate solid new mortgage volume, reflecting the expansion of our mortgage lending sales force that began in the second quarter of 2012.

### Commercial, Industrial, and Agricultural Loans

Commercial, industrial, and agricultural loans represent 37.4% of loans, excluding covered loans, and totaled \$1.9 billion at March 31, 2013, an increase of \$34.8 million, or 7.3% annualized, from December 31, 2012. Our commercial and industrial loans are a diverse group of loans to middle market businesses generally located in the Chicago metropolitan area with purposes that range from supporting seasonal working capital needs to term financing of equipment. The underwriting for these loans is primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may incorporate a personal guarantee. As part of our targeted portfolio distribution strategy, we are developing specialized lending platforms, such as healthcare, agribusiness, and asset-based lending. Agricultural loans generally provide seasonal support and are secured by facilities and equipment in addition to crop production, which is usually covered by crop insurance.

### Commercial Real Estate Loans

Our focus for the commercial real estate portfolio is to grow loans secured by owner-occupied real estate. These loans are viewed primarily as cash flow loans (similar to commercial and industrial loans) and secondarily as loans secured by real estate. All commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those standards specific to real estate loans. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans depends on the successful operation of the property securing the loan or the business conducted on the property securing the loan. This category of loans may be more adversely affected by conditions in the real estate market or in the general economy. The properties securing our commercial real estate portfolio are diverse in terms of type and geographic location within the Company's markets. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography, and risk rating criteria.

The following table presents commercial real estate loans by owner-occupied or investor status and category.

Table 8  
Commercial Real Estate Loans  
(Dollar amounts in thousands)

|   | March 31, 2013 |              |              | December 31, 2012 |              |             |
|---|----------------|--------------|--------------|-------------------|--------------|-------------|
|   | Owner-Occupied | Investor     | Total        | Owner-Occupied    | Investor     | Total       |
| Office, retail, and industrial:   |                |              |              |                   |              |             |
| Office  | \$ 174,898     | \$ 290,381   | \$ 465,279   | \$167,221         | \$ 307,496   | \$ 474,717  |
| Retail  | 123,459        | 261,954      | 385,413      | 115,570           | 253,226      | 368,796     |
| Industrial  | 275,283        | 218,281      | 493,564      | 270,484           | 219,194      | 489,678     |
| Total office, retail, and industrial  | 573,640        | 770,616      | 1,344,256    | 553,275           | 779,916      | 1,333,191   |
| Multi-family  | -              | 298,117      | 298,117      | -                 | 285,481      | 285,481     |
| Residential construction  | -              | 54,032       | 54,032       | -                 | 61,462       | 61,462      |
| Commercial construction   | -              | 122,210      | 122,210      | -                 | 124,954      | 124,954     |
| Other commercial real estate:   |                |              |              |                   |              |             |
| Rental properties (1)   | 27,911         | 87,865       | 115,776      | 26,902            | 94,272       | 121,174     |
| Service stations and truck stops  | 83,760         | 19,785       | 103,545      | 95,794            | 18,727       | 114,521     |
| Warehouses and storage  | 68,383         | 32,969       | 101,352      | 77,290            | 33,077       | 110,367     |
| Hotels  | -              | 64,362       | 64,362       | -                 | 73,347       | 73,347      |
| Restaurants   | 62,936         | 17,660       | 80,596       | 62,921            | 17,509       | 80,430      |
| Automobile dealers  | 34,845         | 5,039        | 39,884       | 39,392            | 5,729        | 45,121      |
| Mobile home parks   | -              | 27,191       | 27,191       | -                 | 27,147       | 27,147      |
| Recreational  | 32,370         | 7,695        | 40,065       | 32,804            | 8,254        | 41,058      |
| Religious   | 30,328         | 887          | 31,215       | 28,301            | 895          | 29,196      |
| Medical   | -              | 810          | 810          | -                 | 816          | 816         |
| Multi-use properties  | 12,869         | 60,642       | 73,511       | 14,295            | 48,825       | 63,120      |
| Other   | 30,671         | 34,098       | 64,769       | 32,401            | 34,423       | 66,824      |
| Total other commercial real estate  | 384,073        | 359,003      | 743,076      | 410,100           | 363,021      | 773,121     |
| Total commercial real estate  | \$ 957,713     | \$ 1,603,978 | \$ 2,561,691 | \$963,375         | \$ 1,614,834 | \$2,578,209 |
| Commercial real estate loans, excluding multi-family and construction loans | \$ 957,713     | \$ 1,129,619 | \$ 2,087,332 | \$963,375         | \$ 1,142,937 | \$2,106,312 |
| Percent of total  |                |              |              |                   |              |             |
| (2)   | 45.9%          | 54.1%        |              | 45.7%             | 54.3%        |             |

- (1)Owner-occupied rental properties primarily represent home-based businesses.
- (2)The percent reported does not include multi-family or construction loans since the owner-occupied classification is not relevant to these categories.

Commercial real estate loans represent 49.5% of total loans, excluding covered loans, and totaled \$2.6 billion at March 31, 2013, a decline of \$16.5 million from December 31, 2012 from continued decreases in the construction and other commercial real estate portfolios. Over half of our commercial real estate loans consist of loans for industrial buildings, office buildings, and retail shopping centers. Owner-occupied office, retail, and other industrial loans were 42.7% of total office, retail, and industrial loans as of March 31, 2013.

### Consumer Loans

Our consumer loan portfolio consists mainly of loans or lines of credit to individuals for residential or other personal expenditures. Home equity loans and lines of credit and 1-4 family mortgages are primarily secured by senior or junior liens on the borrower's personal residence. Underwriting standards for these loans are heavily influenced by statutory requirements, which include loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements. Loan-to-value ratios on home equity and 1-4 family mortgages are based on the current value of the appraised collateral.

### Non-performing Assets and Potential Problem Loans

The following table presents our loan portfolio by performing and non-performing status. A discussion of our accounting policies for non-accrual loans, TDRs, and loans 90 days or more past due can be found in Note 1 of "Notes to the Condensed Consolidated Financial Statements" in Part 1, Item 1 of this Form 10-Q.

Table 9

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

|                                      | Total<br>Loans | Current      | Accruing<br>30-89 Days<br>Past Due | 90 Days<br>Past Due | TDRs     | Non-accrual |
|--------------------------------------|----------------|--------------|------------------------------------|---------------------|----------|-------------|
| As of March 31, 2013                 |                |              |                                    |                     |          |             |
| Commercial and industrial            | \$ 1,659,872   | \$ 1,622,225 | \$ 6,622                           | \$ 688              | \$ 712   | \$ 29,625   |
| Agricultural                         | 274,991        | 274,094      | -                                  | 242                 | -        | 655         |
| Commercial real estate:              |                |              |                                    |                     |          |             |
| Office                               | 465,279        | 459,685      | 2,757                              | -                   | -        | 2,837       |
| Retail                               | 385,413        | 376,905      | 416                                | -                   | 244      | 7,848       |
| Industrial                           | 493,564        | 477,317      | 494                                | -                   | -        | 15,753      |
| Multi-family                         | 298,117        | 295,380      | 835                                | 136                 | -        | 1,766       |
| Residential construction             | 54,032         | 47,847       | 129                                | -                   | 504      | 5,552       |
| Commercial construction              | 122,210        | 120,277      | 1,060                              | -                   | -        | 873         |
| Other commercial real estate         | 743,076        | 721,389      | 3,047                              | 1,108               | -        | 17,532      |
| Total commercial real estate         | 2,561,691      | 2,498,800    | 8,738                              | 1,244               | 748      | 52,161      |
| Total corporate loans                | 4,496,554      | 4,395,119    | 15,360                             | 2,174               | 1,460    | 82,441      |
| Home equity                          | 379,352        | 365,942      | 4,993                              | 2,025               | 38       | 6,354       |
| 1-4 family mortgages                 | 263,286        | 254,632      | 1,570                              | 1,315               | 1,089    | 4,680       |
| Installment loans                    | 36,079         | 33,820       | 299                                | 38                  | -        | 1,922       |
| Total consumer loans                 | 678,717        | 654,394      | 6,862                              | 3,378               | 1,127    | 12,956      |
| Total loans, excluding covered loans | 5,175,271      | 5,049,513    | 22,222                             | 5,552               | 2,587    | 95,397      |
| Covered loans                        | 186,687        | 130,186      | 10,655                             | 24,934              | -        | 20,912      |
| Total loans                          | \$ 5,361,958   | \$ 5,179,699 | \$ 32,877                          | \$ 30,486           | \$ 2,587 | \$ 116,309  |
| As of December 31, 2012              |                |              |                                    |                     |          |             |
| Commercial and industrial            | \$ 1,631,474   | \$ 1,598,342 | \$ 4,534                           | \$ 2,138            | \$ 519   | \$ 25,941   |
| Agricultural                         | 268,618        | 266,991      | 79                                 | 375                 | -        | 1,173       |
| Commercial real estate:              |                |              |                                    |                     |          |             |
| Office                               | 474,717        | 471,242      | 871                                | 197                 | -        | 2,407       |
| Retail                               | 368,796        | 358,945      | 2,415                              | 626                 | -        | 6,810       |
| Industrial                           | 489,678        | 475,416      | 255                                | -                   | -        | 14,007      |
| Multi-family                         | 285,481        | 283,415      | 479                                | 153                 | -        | 1,434       |
| Residential construction             | 61,462         | 56,850       | -                                  | -                   | -        | 4,612       |
| Commercial construction              | 124,954        | 124,081      | -                                  | -                   | -        | 873         |
| Other commercial real estate         | 773,121        | 749,114      | 1,053                              | 1,534               | 5,206    | 16,214      |
| Total commercial real estate         | 2,578,209      | 2,519,063    | 5,073                              | 2,510               | 5,206    | 46,357      |
| Total corporate loans                | 4,478,301      | 4,384,396    | 9,686                              | 5,023               | 5,725    | 73,471      |
| Home equity                          | 390,033        | 375,804      | 6,349                              | 1,651               | 40       | 6,189       |



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|                                |              |              |           |           |          |           |
|--------------------------------|--------------|--------------|-----------|-----------|----------|-----------|
| 1-4 family mortgages           | 282,948      | 270,784      | 4,241     | 1,947     | 1,102    | 4,874     |
| Installment loans              | 38,394       | 35,936       | 2,390     | 68        | -        | -         |
| Total consumer loans           | 711,375      | 682,524      | 12,980    | 3,666     | 1,142    | 11,063    |
| Total loans, excluding covered |              |              |           |           |          |           |
| loans                          | 5,189,676    | 5,066,920    | 22,666    | 8,689     | 6,867    | 84,534    |
| Covered loans                  | 197,894      | 145,751      | 6,514     | 31,447    | -        | 14,182    |
| Total loans                    | \$ 5,387,570 | \$ 5,212,671 | \$ 29,180 | \$ 40,136 | \$ 6,867 | \$ 98,716 |

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

Table 10  
Non-Performing Assets and Past Due Loans  
(Dollar amounts in thousands)

|   | 2013       |             | 2012         |            |            |
|---|------------|-------------|--------------|------------|------------|
|   | March 31   | December 31 | September 30 | June 30    | March 31   |
| Non-performing assets, excluding covered loans and covered OREO |            |             |              |            |            |
| Non-accrual loans   | \$ 95,397  | \$ 84,534   | \$ 99,579    | \$ 198,508 | \$ 199,545 |
| 90 days or more past due loans                                  | 5,552      | 8,689       | 12,582       | 8,192      | 7,674      |
| Total non-performing loans                                      | 100,949    | 93,223      | 112,161      | 206,700    | 207,219    |
| TDRs (still accruing interest)                                  | 2,587      | 6,867       | 6,391        | 7,811      | 2,076      |
| OREO  | 39,994     | 39,953      | 36,487       | 28,309     | 35,276     |
| Total non-performing assets                                     | \$ 143,530 | \$ 140,043  | \$ 155,039   | \$ 242,820 | \$ 244,571 |
| 30-89 days past due loans                                       | \$ 22,222  | \$ 22,666   | \$ 20,088    | \$ 23,597  | \$ 21,241  |
| Non-accrual loans to total loans                                |            |             |              |            |            |
|   | 1.84%      | 1.63%       | 1.91%        | 3.75%      | 3.88%      |
| Non-performing loans to total loans                             |            |             |              |            |            |
|   | 1.95%      | 1.80%       | 2.15%        | 3.90%      | 4.03%      |
| Non-performing assets to loans plus OREO                        |            |             |              |            |            |
|   | 2.75%      | 2.68%       | 2.95%        | 4.56%      | 4.73%      |
| Covered loans and covered OREO (1)                              |            |             |              |            |            |
| Non-accrual loans   | \$ 20,912  | \$ 14,182   | \$ 16,372    | \$ 14,540  | \$ 19,264  |
| 90 days or more past due loans                                  | 24,934     | 31,447      | 34,554       | 33,288     | 33,825     |
| Total non-performing loans                                      | 45,846     | 45,629      | 50,926       | 47,828     | 53,089     |
| TDRs (still accruing interest)                                  | -          | -           | -            | -          | -          |
| OREO  | 14,774     | 13,123      | 8,729        | 9,136      | 16,990     |
| Total non-performing assets                                     | \$ 60,620  | \$ 58,752   | \$ 59,655    | \$ 56,964  | \$ 70,079  |
| 30-89 days past due loans                                       | \$ 10,655  | \$ 6,514    | \$ 9,241     | \$ 7,593   | \$ 8,387   |
| Non-performing assets, including covered loans and covered OREO |            |             |              |            |            |
| Non-accrual loans   | \$ 116,309 | \$ 98,716   | \$ 115,951   | \$ 213,048 | \$ 218,809 |
| 90 days or more past due loans                                  | 30,486     | 40,136      | 47,136       | 41,480     | 41,499     |
| Total non-performing loans                                      | 146,795    | 138,852     | 163,087      | 254,528    | 260,308    |
| TDRs (still accruing interest)                                  | 2,587      | 6,867       | 6,391        | 7,811      | 2,076      |
| OREO  | 54,768     | 53,076      | 45,216       | 37,445     | 52,266     |

|  |    |         |    |         |    |         |    |         |    |         |
|--|----|---------|----|---------|----|---------|----|---------|----|---------|
| Total non-performing assets              | \$ | 204,150 | \$ | 198,795 | \$ | 214,694 | \$ | 299,784 | \$ | 314,650 |
| 30-89 days past due loans                | \$ | 32,877  | \$ | 29,180  | \$ | 29,329  | \$ | 31,190  | \$ | 29,628  |
| Non-accrual loans to total loans         |    | 2.17%   |    | 1.83%   |    | 2.13%   |    | 3.85%   |    | 4.06%   |
| Non-performing loans to total loans      |    | 2.74%   |    | 2.58%   |    | 3.00%   |    | 4.60%   |    | 4.83%   |
| Non-performing assets to loans plus OREO |    | 3.77%   |    | 3.65%   |    | 3.92%   |    | 5.39%   |    | 5.78%   |

(1) Covered loans and covered OREO are covered by FDIC Agreements that substantially mitigate the risk of loss. Past due covered loans in the tables above are determined by borrower performance compared to contractual terms, but are generally considered accruing loans since they continue to perform in accordance with our expectations of cash flows. For a discussion of covered loans and covered OREO, refer to Note 5 of "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q.

Non-performing assets, excluding covered loans and covered OREO, were \$143.5 million at March 31, 2013. A decline in TDRs and loans 90 days or more past due were more than offset by the rise in non-accrual loans.

At March 31, 2013, non-accrual loans, excluding covered loans, totaled \$95.4 million, an increase of \$10.9 million, or 12.9%, from December 31, 2012. The rise in non-accrual loans resulted primarily from the transfer of five credit relationships

totaling \$14.0 million to non-accrual during the first quarter of 2013, which more than offset payments, charge-offs, and transfers to OREO.

## TDRs

Loan modifications may be performed at the request of the individual borrower and may include reductions in interest rates, changes in payments, or maturity date extensions.

Table 11  
TDRs by Type  
(Dollar amounts in thousands)

|  | March 31, 2013        |           | December 31, 2012     |           | March 31, 2012        |           |
|--|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|
|  | Number<br>of<br>Loans | Amount    | Number<br>of<br>Loans | Amount    | Number<br>of<br>Loans | Amount    |
| Commercial and industrial              | 7                     | \$ 3,204  | 6                     | \$ 3,064  | 15                    | \$ 1,758  |
| Commercial real estate:                |                       |           |                       |           |                       |           |
| Office                                 | -                     | -         | -                     | -         | -                     | -         |
| Retail                                 | 1                     | 244       | 2                     | 2,407     | 1                     | 220       |
| Industrial                             | 2                     | 2,156     | -                     | -         | -                     | -         |
| Multi-family                           | -                     | -         | 1                     | 150       | 8                     | 1,758     |
| Residential construction               | 2                     | 504       | -                     | -         | -                     | -         |
| Commercial construction                | -                     | -         | -                     | -         | 1                     | 14,006    |
| Other commercial real estate           | 2                     | 4,746     | 7                     | 9,855     | 7                     | 11,467    |
| Total commercial real estate<br>loans  | 7                     | 7,650     | 10                    | 12,412    | 17                    | 27,451    |
| Total corporate loans                  | 14                    | 10,854    | 16                    | 15,476    | 32                    | 29,209    |
| Home equity                            | 6                     | 270       | 7                     | 274       | 11                    | 768       |
| 1-4 family mortgages                   | 15                    | 1,868     | 16                    | 2,041     | 17                    | 2,059     |
| Installment loans                      | -                     | -         | -                     | -         | -                     | -         |
| Total consumer loans                   | 21                    | 2,138     | 23                    | 2,315     | 28                    | 2,827     |
| Total TDRs                             | 35                    | \$ 12,992 | 39                    | \$ 17,791 | 60                    | \$ 32,036 |
| TDRs, still accruing interest          | 16                    | \$ 2,587  | 19                    | \$ 6,867  | 17                    | \$ 2,076  |
| TDRs, included in non-accrual          | 19                    | 10,405    | 20                    | 10,924    | 43                    | 29,960    |
| Total TDRs                             | 35                    | \$ 12,992 | 39                    | \$ 17,791 | 60                    | \$ 32,036 |
| Year-to-date charge-offs on<br>TDRs    |                       | \$ 803    |                       | \$ 10,003 |                       | \$ -      |
| Valuation allowance related to<br>TDRs |                       | \$ 2,526  |                       | \$ 2,794  |                       | \$ 916    |

At March 31, 2013, we had TDRs totaling \$13.0 million, a decrease of \$4.8 million from December 31, 2012. The March 31, 2013 total includes \$2.6 million in loans that were restructured at market terms and are accruing interest compared to \$6.9 million as of December 31, 2012. During the first quarter of 2013, we returned \$5.0 million in accruing TDRs to performing status since they exhibited sufficient performance under the modified terms and had been restructured at market rates.

We have other TDRs totaling \$10.4 million as of March 31, 2013, which are reported as non-accrual because they are not yet performing in accordance with their modified terms or they have not yet exhibited sufficient performance under their modified terms. We occasionally restructure loans at other than market rates or terms to enable the borrower to work through financial difficulties for a set period of time, and these restructures remain classified as TDRs for the remaining terms of the loans.

## Performing Potential Problem Loans

Performing potential problem loans consist of special mention loans and substandard loans. These loans are performing in accordance with contractual terms, but management has concerns about the ability of the borrower to continue to comply with loan terms due to the borrower's potential operating or financial difficulties.

Table 12  
Performing Potential Problem Loans  
(Dollar amounts in thousands)

|  | March 31, 2013         |                    |  | December 31, 2012      |                    |  |
|--|------------------------|--------------------|--|------------------------|--------------------|--|
|  | Special<br>Mention (1) | Substandard<br>(2) | Total<br>Performing<br>Potential<br>Problem<br>Loans | Special<br>Mention (1) | Substandard<br>(2) | Total<br>Performing<br>Potential<br>Problem<br>Loans |
| Commercial and industrial                          | \$ 31,258              | \$ 10,256          | \$ 41,514  | \$ 37,833              | \$ 8,768           | \$ 46,601  |
| Agricultural                                       | -                      | -                  | -  | 331                    | -                  | 331  |
| Commercial real estate:                            |                        |                    |  |                        |                    |  |
| Office, retail, and industrial                     | 55,086                 | 17,393             | 72,479   | 57,271                 | 16,746             | 74,017   |
| Multi-family                                       | 2,535                  | -                  | 2,535  | 1,921                  | -                  | 1,921  |
| Residential construction                           | 9,215                  | 8,443              | 17,658   | 11,870                 | 11,588             | 23,458   |
| Commercial construction                            | 13,767                 | 19,856             | 33,623   | 14,340                 | 14,174             | 28,514   |
| Other commercial real estate                       | 9,928                  | 26,222             | 36,150   | 14,056                 | 30,149             | 44,205   |
| Total commercial real estate                       | 90,531                 | 71,914             | 162,445  | 99,458                 | 72,657             | 172,115  |
| Total performing potential problem corporate loans | \$ 121,789             | \$ 82,170          | \$ 203,959   | \$ 137,622             | \$ 81,425          | \$ 219,047   |

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

(2) Loans categorized as substandard continue to accrue interest, but exhibit a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt. The loans continue to accrue interest because they are well secured and collection of principal and interest is expected within a reasonable time.

Performing potential problem loans totaled \$204.0 million as of March 31, 2013, down \$15.1 million, or 6.9%, from December 31, 2012, with improvement across the majority of corporate loan categories. As of March 31, 2013, approximately 40% of potential problem loans were comprised of 8 commercial loans each having balances greater than \$5.0 million.

#### OREO Activity

OREO consists of properties acquired as the result of borrower defaults on loans. OREO, excluding covered OREO, was \$40.0 million at March 31, 2013, remaining stable compared to December 31, 2012, and increasing \$4.7 million from March 31, 2012.

Table 13  
OREO Properties by Type  
(Dollar amounts in thousands)

|                          | March 31, 2013          |           | December 31, 2012       |           | March 31, 2012          |           |
|--------------------------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|
|                          | Number of<br>Properties | Amount    | Number of<br>Properties | Amount    | Number of<br>Properties | Amount    |
| Single family homes      | 21                      | \$ 2,442  | 15                      | \$ 2,054  | 13                      | \$ 2,340  |
| Land parcels:            |                         |           |                         |           |                         |           |
| Raw land                 | 5                       | 3,244     | 5                       | 3,244     | 8                       | 5,047     |
| Farmland                 | -                       | -         | 1                       | 207       | 1                       | 207       |
| Commercial lots          | 23                      | 12,647    | 22                      | 12,355    | 16                      | 5,482     |
| Single-family lots       | 27                      | 3,942     | 29                      | 4,970     | 25                      | 6,803     |
| Total land parcels       | 55                      | 19,833    | 57                      | 20,776    | 50                      | 17,539    |
| Multi-family units       | 14                      | 996       | 10                      | 796       | 6                       | 609       |
| Commercial properties    | 30                      | 16,723    | 32                      | 16,327    | 21                      | 14,788    |
| Total OREO,<br>excluding |                         |           |                         |           |                         |           |
| covered OREO             | 120                     | 39,994    | 114                     | 39,953    | 90                      | 35,276    |
| Covered OREO             | 71                      | 14,774    | 62                      | 13,123    | 44                      | 16,990    |
| Total OREO<br>properties | 191                     | \$ 54,768 | 176                     | \$ 53,076 | 134                     | \$ 52,266 |

Table 14  
OREO Disposals and Write-Downs  
(Dollar amounts in thousands)

|   | Quarter Ended March 31, 2013 |                 |          | Quarter Ended March 31, 2012 |                 |           |
|---|------------------------------|-----------------|----------|------------------------------|-----------------|-----------|
|   | OREO                         | Covered<br>OREO | Total    | OREO                         | Covered<br>OREO | Total     |
| OREO sales                                  |                              |                 |          |                              |                 |           |
| Proceeds from sales                         | \$ 3,484                     | \$ 9            | \$ 3,493 | \$ 8,830                     | \$ 8,326        | \$ 17,156 |
| Less: Basis of properties sold              | 3,701                        | 6               | 3,707    | 8,532                        | 8,237           | 16,769    |
| Net losses (gains) on sales<br>of OREO      | \$ 217                       | \$ (3)          | \$ 214   | \$ (298)                     | \$ (89)         | \$ (387)  |
| OREO transfers and valuation<br>adjustments |                              |                 |          |                              |                 |           |
| OREO valuation adjustments                  | \$ 525                       | \$ 42           | \$ 567   | \$ 691                       | \$ (1)          | \$ 690    |

For the quarter ended March 31, 2013, we sold \$3.7 million of OREO, excluding covered OREO, with proceeds at 94.1% of carrying value. These sales consisted of 15 properties with the majority classified as single-family homes and commercial properties.

OREO sales, excluding covered OREO, consisted of 13 properties for the quarter ended March 31, 2012, with the majority classified as raw land and multi-family units.

#### Allowance for Credit Losses

#### Methodology for the Allowance for Credit Losses



The allowance for credit losses is comprised of the allowance for loan and covered loan losses and the reserve for unfunded commitments and is maintained by management at a level believed adequate to absorb estimated losses inherent in the existing loan portfolio. Determination of the allowance for credit losses is inherently subjective since it requires significant estimates and management judgment, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans, and consideration of current economic trends.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance for credit losses depends on a variety of factors beyond the Company's control, including the performance of its loan portfolio, the economy, changes in interest rates and property values, and the interpretation of loan risk classifications by regulatory authorities. Management believes that the allowance for credit losses is an appropriate estimate of credit losses inherent in the loan portfolio as of March 31, 2013.

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

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

|   | Quarters Ended   |             |              |                 |            |
|---|------------------|-------------|--------------|-----------------|------------|
|   | 2013<br>March 31 | December 31 | September 30 | 2012<br>June 30 | March 31   |
| Change in allowance for credit losses         |                  |             |              |                 |            |
| Beginning balance                             | \$ 102,812       | \$ 104,945  | \$ 118,682   | \$ 118,764      | \$ 121,962 |
| Loan charge-offs:                             |                  |             |              |                 |            |
| Commercial and industrial                     | (2,986)          | (2,425)     | (43,099)     | (6,405)         | (8,170)    |
| Agricultural                                  | (90)             | -           | (4,531)      | (18)            | (20)       |
| Office, retail, and industrial                | (1,262)          | (361)       | (29,370)     | (2,570)         | (2,667)    |
| Multi-family                                  | (165)            | (119)       | (2,758)      | (344)           | (140)      |
| Residential construction                      | (565)            | (239)       | (9,368)      | (3,598)         | (683)      |
| Commercial construction                       | -                | (100)       | (11,037)     | (2,616)         | (170)      |
| Other commercial real estate                  | (2,634)          | (1,865)     | (23,473)     | (2,952)         | (8,184)    |
| Home equity and installment                   | (1,966)          | (1,915)     | (2,470)      | (2,489)         | (2,152)    |
| 1-4 family mortgages                          | (398)            | (831)       | (572)        | (255)           | (226)      |
| Total loan charge-offs                        | (10,066)         | (7,855)     | (126,678)    | (21,247)        | (22,412)   |
| Recoveries of loan charge-offs:               |                  |             |              |                 |            |
| Commercial and industrial                     | 2,089            | 647         | 1,318        | 535             | 646        |
| Agricultural                                  | -                | 177         | -            | -               | 70         |
| Office, retail, and industrial                | 2                | 266         | 2            | 307             | 2          |
| Multi-family                                  | 5                | 110         | 3            | 31              | 131        |
| Residential construction                      | -                | 105         | 126          | -               | 220        |
| Commercial construction                       | 2                | -           | -            | -               | -          |
| Other commercial real estate                  | 1,030            | 79          | 21           | 18              | 7          |
| Home equity and installment                   | 105              | 205         | 119          | 245             | 186        |
| 1-4 family mortgages                          | 2                | 5           | 3            | 5               | 16         |
| Total recoveries of loan charge-offs          | 3,235            | 1,594       | 1,592        | 1,141           | 1,278      |
| Net loan charge-offs, excluding covered loans | (6,831)          | (6,261)     | (125,086)    | (20,106)        | (21,134)   |
| Net covered loan charge-offs                  | (698)            | (1,465)     | (442)        | (2,434)         | (274)      |

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|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Net loan charge-offs                                       | (7,529)    | (7,726)    | (125,528)  | (22,540)   | (21,408)   |
| Provision for loan and covered loan losses:                |            |            |            |            |            |
| Provision for loan losses                                  | 4,811      | 1,463      | 102,934    | 20,035     | 17,932     |
| Provision for covered loan losses                          | 1,014      | 4,131      | 9,212      | 10,215     | 1,387      |
| Less: expected reimbursement from the FDIC                 | (151)      | (1)        | (355)      | (7,792)    | (1,109)    |
| Net provision for covered loan losses                      | 863        | 4,130      | 8,857      | 2,423      | 278        |
| Provision for loan and covered loan losses                 | 5,674      | 5,593      | 111,791    | 22,458     | 18,210     |
| Reduction in reserve for unfunded commitments (1)          | (500)      | -          | -          | -          | -          |
| Total provision for loan and covered loan losses and other | 5,174      | 5,593      | 111,791    | 22,458     | 18,210     |
| Ending balance   | \$ 100,457 | \$ 102,812 | \$ 104,945 | \$ 118,682 | \$ 118,764 |

(1)Included in other noninterest expense in the Consolidated Statements of Income.

|  | Quarters Ended |              |              |              |              |
|--|----------------|--------------|--------------|--------------|--------------|
|  | 2013           |              | 2012         |              |              |
|  | March 31       | December 31  | September 30 | June 30      | March 31     |
| Allowance for credit losses                                    |                |              |              |              |              |
| Allowance for loan losses                                      | \$ 85,364      | \$ 87,384    | \$ 93,048    | \$ 115,200   | \$ 115,271   |
| Allowance for covered loan losses                              | 12,227         | 12,062       | 9,397        | 982          | 993          |
| Total allowance for loan and covered loan losses               | 97,591         | 99,446       | 102,445      | 116,182      | 116,264      |
| Reserve for unfunded commitments                               | 2,866          | 3,366        | 2,500        | 2,500        | 2,500        |
| Total allowance for credit losses                              | \$ 100,457     | \$ 102,812   | \$ 104,945   | \$ 118,682   | \$ 118,764   |
| Amounts and ratios, excluding covered loans                    |                |              |              |              |              |
| Average loans  | \$ 5,148,343   | \$ 5,160,576 | \$ 5,353,911 | \$ 5,213,944 | \$ 5,089,286 |
| Net loan charge-offs to average loans, annualized              | 0.54%          | 0.48%        | 9.29%        | 1.55%        | 1.67%        |
| Allowance for credit losses at end of period as a percent of : |                |              |              |              |              |
| Total loans  | 1.70%          | 1.75%        | 1.83%        | 2.24%        | 2.31%        |
| Non-accrual loans  | 92.49%         | 107.35%      | 95.95%       | 59.79%       | 59.52%       |
| Non-performing loans   | 87.40%         | 97.35%       | 85.19%       | 57.42%       | 57.31%       |
| Amounts and ratios, including covered loans                    |                |              |              |              |              |
| Average loans  | \$ 5,339,749   | \$ 5,367,121 | \$ 5,575,406 | \$ 5,454,295 | \$ 5,345,074 |
| Net loan charge-offs to average loans, annualized              | 0.57%          | 0.57%        | 8.96%        | 1.66%        | 1.61%        |
| Allowance for credit losses at end of period as a percent of : |                |              |              |              |              |
| Total loans  | 1.87%          | 1.91%        | 1.93%        | 2.15%        | 2.20%        |
| Non-accrual loans  | 86.37%         | 104.15%      | 90.51%       | 55.71%       | 54.28%       |
| Non-performing loans   | 68.43%         | 74.04%       | 64.35%       | 46.63%       | 45.62%       |

#### Activity in the Allowance for Credit Losses

The allowance for credit losses was \$100.5 million as of March 31, 2013, a decline of \$2.4 million from December 31, 2012 and \$18.3 million from March 31, 2012. The allowance for credit losses was 1.87% of total loans at March 31, 2013 compared to 1.91% at December 31, 2012 and 2.20% from March 31, 2012, reflecting significant improvement in credit quality over the past 12 months.

Net loan charge-offs, excluding covered loan charge-offs, and the provision for loan and covered loan losses during the first quarter of 2013 remained stable or decreased compared to the prior periods presented. The decline in charge-offs compared to the first quarter of 2012 reflected improved credit quality due to management's accelerated credit remediation actions that occurred during the third and fourth quarters of 2012, including the bulk loan sales.

Covered loan charge-offs reflect the decline in estimated cash flows of certain acquired loans. Management re-estimates cash flows periodically, and the present value of any decreases in expected cash flows from the FDIC is recorded as either a charge-off in that period or an allowance for covered loan losses is established. Any increases in expected cash flows are recorded through prospective yield adjustments over the remaining lives of the specific loans. To date, cumulative increases in expected cash flows exceeded cumulative declines.

## FUNDING AND LIQUIDITY MANAGEMENT

The following table provides a comparison of average funding sources for the quarters ended March 31, 2013, December 31, 2012, and March 31, 2012. We believe that average balances, rather than period-end balances, are more meaningful in analyzing funding sources because of the inherent fluctuations that may occur on a monthly basis within most funding categories.

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

|  | Quarters Ended    |                      |                   | First Quarter 2013<br>% Change From |                          |
|--|-------------------|----------------------|-------------------|-------------------------------------|--------------------------|
|  | March 31,<br>2013 | December 31,<br>2012 | March 31,<br>2012 | Fourth<br>Quarter<br>2012           | First<br>Quarter<br>2012 |
| Demand deposits                                    | \$ 1,740,825      | \$ 1,808,522         | \$ 1,591,198      | (3.7%)                              | 9.4%                     |
| Savings deposits                                   | 1,107,213         | 1,066,611            | 995,955           | 3.8%                                | 11.2%                    |
| NOW accounts                                       | 1,145,482         | 1,133,740            | 1,051,870         | 1.0%                                | 8.9%                     |
| Money market accounts                              | 1,251,235         | 1,268,046            | 1,184,316         | (1.3%)                              | 5.7%                     |
| Transactional deposits                             | 5,244,755         | 5,276,919            | 4,823,339         | (0.6%)                              | 8.7%                     |
| Time deposits                                      | 1,348,263         | 1,418,689            | 1,601,518         | (5.0%)                              | (15.8%)                  |
| Brokered deposits                                  | 26,266            | 29,229               | 20,408            | (10.1%)                             | 28.7%                    |
| Total time deposits                                | 1,374,529         | 1,447,918            | 1,621,926         | (5.1%)                              | (15.3%)                  |
| Total deposits                                     | 6,619,284         | 6,724,837            | 6,445,265         | (1.6%)                              | 2.7%                     |
| Repurchase agreements                              | 85,314            | 70,805               | 91,048            | 20.5%                               | (6.3%)                   |
| FHLB advances                                      | 114,577           | 114,585              | 112,500           | (0.0%)                              | 1.8%                     |
| Total borrowed funds                               | 199,891           | 185,390              | 203,548           | 7.8%                                | (1.8%)                   |
| Senior and subordinated debt                       | 214,796           | 214,764              | 248,232           | 0.0%                                | (13.5%)                  |
| Total funding sources                              | \$ 7,033,971      | \$ 7,124,991         | \$ 6,897,045      | (1.3%)                              | 2.0%                     |
| Average interest rate paid on<br>borrowed funds    | 0.90%             | 1.07%                | 1.02%             |                                     |                          |
| Weighted-average maturity of<br>FHLB advances      | 38.1<br>months    | 20.8<br>months       | 29.6<br>months    |                                     |                          |
| Weighted-average interest rate<br>of FHLB advances | 1.30%             | 1.72%                | 1.71%             |                                     |                          |

Average funding sources for the first quarter of 2013 decreased \$91.0 million from the fourth quarter of 2012 and increased \$136.9 million from the first quarter of 2012. For the first quarter of 2013 compared to the prior year period, growth in demand and savings deposits more than offset the decline in time deposits, resulting in a more favorable product mix. Compared to the fourth quarter of 2012, declines in time deposits and demand deposits primarily contributed to the variance.

The reduction in average senior and subordinated debt compared to the prior year period was attributed to the repurchase and retirement of approximately \$25.4 million of junior subordinated debentures and \$12.0 million of subordinated notes during 2012.





Table 17  
Borrowed Funds  
(Dollar amounts in thousands)

|   | March 31, 2013 |                       | March 31, 2012 |                       |
|---|----------------|-----------------------|----------------|-----------------------|
|   | Amount         | Weighted-Average Rate | Amount         | Weighted-Average Rate |
| At period-end:  |                |                       |                |                       |
| Securities sold under agreements to repurchase                      | \$ 94,281      | 0.03%                 | \$ 89,655      | 0.01%                 |
| FHLB advances   | 114,573        | 1.30%                 | 112,500        | 1.71%                 |
| Total borrowed funds  | \$ 208,854     | 0.73%                 | \$ 202,155     | 0.96%                 |
| Average for the year-to-date period:                                |                |                       |                |                       |
| Securities sold under agreements to repurchase                      | \$ 85,314      | 0.02%                 | \$ 91,048      | 0.01%                 |
| FHLB advances   | 114,577        | 1.55%                 | 112,500        | 1.83%                 |
| Total borrowed funds  | \$ 199,891     | 0.90%                 | \$ 203,548     | 1.02%                 |
| Maximum amount outstanding at the end of any day during the period: |                |                       |                |                       |
| Securities sold under agreements to repurchase                      | \$ 103,602     |                       | \$ 103,591     |                       |
| FHLB advances   | 114,581        |                       | 112,500        |                       |

Average borrowed funds totaled \$199.9 million for the first quarter of 2013, relatively unchanged from the first quarter of 2012.

Securities sold under agreements to repurchase generally mature within 1 to 90 days from the transaction date.

## MANAGEMENT OF CAPITAL

### Capital Measurements

A strong capital structure is crucial in maintaining investor confidence, accessing capital markets, and enabling us to take advantage of future profitable growth opportunities. Our capital policy requires that the Company and the Bank maintain capital ratios in excess of the minimum regulatory guidelines. It serves as an internal discipline in analyzing business risks and internal growth opportunities and sets targeted levels of return on equity. Under regulatory capital adequacy guidelines, the Company and the Bank are subject to various capital requirements set by the federal banking agencies. These requirements specify minimum capital ratios, defined as Tier 1 and total capital as a percentage of assets and off-balance sheet items that were weighted according to broad risk categories and a leverage ratio calculated as Tier 1 capital as a percentage of adjusted average assets. We manage our capital ratios for both the Company and the Bank to consistently maintain these measurements in excess of the Federal Reserve's minimum levels to be "well-capitalized," which is the highest capital category established.

The following table presents our consolidated measures of capital as of the dates presented and the capital guidelines established by the Federal Reserve to be categorized as "well-capitalized." All regulatory mandated ratios for characterization as "well-capitalized" were exceeded as of March 31, 2013 and December 31, 2012.

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

Table 18  
Capital Measurements  
(Dollar amounts in thousands)

|  | March 31,<br>2013 | December 31,<br>2012 | Regulatory<br>Minimum<br>For<br>"Well-<br>Capitalized" | Excess Over<br>Required Minimums<br>at March 31, 2013 |            |
|--|-------------------|----------------------|--|---|------------|
| Reconciliation of capital components to regulatory requirements:       |                   |                      |  |   |            |
| Total regulatory capital, as defined in federal regulations            | \$ 771,150        | \$ 755,264           |  |   |            |
| Tier 1 capital, as defined in federal regulations                      | \$ 675,450        | \$ 652,480           |  |   |            |
| Trust preferred securities included in Tier 1 capital                  | (59,965)          | (59,965)             |  |   |            |
| Tier 1 common capital  | \$ 615,485        | \$ 592,515           |  |   |            |
| Risk-weighted assets, as defined in federal regulations                | \$ 6,401,019      | \$ 6,348,523         |  |   |            |
| Average assets, as defined in federal regulations                      | 7,717,847         | 7,768,967            |  |   |            |
| Regulatory capital ratios:   |                   |                      |  |   |            |
| Total capital to risk-weighted assets                                  | 12.05%            | 11.90%               | 10.00%   | 20%   | \$ 131,048 |
| Tier 1 capital to risk-weighted assets                                 | 10.55%            | 10.28%               | 6.00%  | 76%   | \$ 291,389 |
| Tier 1 common capital to risk-weighted assets (1)                      | 9.62%             | 9.33%                | N/A(2)   | N/A(2)  | N/A(2)     |
| Tier 1 leverage to average assets                                      | 8.75%             | 8.40%                | 5.00%  | 75%   | \$ 289,558 |
| Reconciliation of capital components to GAAP:                          |                   |                      |  |   |            |
| Total stockholder's equity   | \$ 953,451        | \$ 940,893           |  |   |            |
| Goodwill and other intangible assets                                   | (280,240)         | (281,059)            |  |   |            |
| Tangible common equity   | 673,211           | 659,834              |  |   |            |
| Accumulated other comprehensive loss                                   | 16,889            | 15,660               |  |   |            |
| Tangible common equity, excluding accumulated other comprehensive loss | \$ 690,100        | \$ 675,494           |  |   |            |
| Total assets   | \$ 8,055,819      | \$ 8,099,839         |  |   |            |
| Goodwill and other intangible assets                                   | (280,240)         | (281,059)            |  |   |            |
| Tangible assets  | \$ 7,775,579      | \$ 7,818,780         |  |   |            |
| Tangible common equity ratios:   |                   |                      |  |   |            |
| Tangible common equity to tangible assets                              | 8.66%             | 8.44%                | N/A(2)   | N/A(2)  | N/A(2)     |
| Tangible common equity, excluding other                                | 8.88%             | 8.64%                | N/A(2)   | N/A(2)  | N/A(2)     |

|   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| accumulated comprehensive loss, to<br>tangible assets |        |        |        |        |        |
| Tangible common equity to<br>risk-weighted assets     | 10.52% | 10.39% | N/A(2) | N/A(2) | N/A(2) |

(1)Excludes the impact of trust-preferred securities.

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

The Board of Directors reviews the Company's capital plan each quarter, considering the current and expected operating environment as well as an evaluation of various capital alternatives.

## CRITICAL ACCOUNTING POLICIES

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

We have numerous accounting policies, of which the most significant are presented in Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements of our 2012 10-K. These policies, along with the disclosures presented in "Notes to the Condensed Consolidated Financial Statements" in Part I, Item 1 of this Form 10-Q, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management determined that our accounting policies with respect to the allowance for credit losses, evaluation of impairment of securities, and income taxes are the accounting areas requiring subjective or complex judgments that are most important to our financial position and results of operations, and, therefore, are considered to be critical accounting policies, as discussed in our 2012 10-K.

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

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. Interest rate risk is our primary market risk and is the result of repricing, basis, and option risk. A description and analysis of our interest rate risk management policies is included in Part II, Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” in our 2012 10-K.

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

#### Net Interest Income Sensitivity

The analysis of net interest income sensitivities assesses the magnitude of changes in net interest income resulting from changes in interest rates over a 12-month horizon using multiple rate scenarios. These scenarios include, but are not limited to, a most likely forecast, a flat or unchanged rate environment, a gradual increase and decrease of 200 basis points that occur in equal steps over a six-month time horizon, and immediate increases of 200 and 300 basis points and decreases of 100 and 200 basis points.

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

We monitor and manage interest rate risk within approved policy limits. Our current interest rate risk policy limits are determined by measuring the change in net interest income over a 12-month horizon.

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

|                    | Gradual Change in Rates (1) |           | Immediate Change in Rates |             |           |           |
|--------------------|-----------------------------|-----------|---------------------------|-------------|-----------|-----------|
|                    | -200                        | +200      | -200                      | -100        | +200      | +300      |
| March 31, 2013:    |                             |           |                           |             |           |           |
| Dollar change      | \$ (11,579)                 | \$ 11,474 | \$ (15,801)               | \$ (10,174) | \$ 17,436 | \$ 30,135 |
| Percent change     | -4.4%                       | +4.4%     | -6.0%                     | -3.9%       | +6.7%     | +11.5%    |
| December 31, 2012: |                             |           |                           |             |           |           |
| Dollar change      | \$ (10,678)                 | \$ 12,933 | \$ (19,173)               | \$ (13,502) | \$ 19,766 | \$ 33,786 |
| Percent change     | -4.1%                       | +4.9%     | -7.3%                     | -5.1%       | +7.5%     | +12.8%    |

(1)Reflects an assumed uniform change in interest rates across all terms that occurs in equal steps over a six-month horizon.

Overall, in rising interest rate scenarios, interest rate risk volatility increased at March 31, 2013 compared to December 31, 2012 and in declining interest rate scenarios, generally, interest rate risk volatility is less negative at March 31, 2013 compared to December 31, 2012. Slower anticipated prepayment speeds are expected to result in fewer loans repricing thus mitigating interest rate risk volatility in a declining interest rate scenario and increasing exposure in a rising interest rate scenario.

## Economic Value of Equity

In addition to the simulation analysis, management uses an economic value of equity sensitivity technique to understand the risk in both shorter-term and longer-term positions and to study the impact of longer-term cash flows on earnings and capital. In determining the economic value of equity, we discount present values of expected cash flows on all assets, liabilities, and off-balance sheet contracts under different interest rate scenarios. The discounted present value of all cash flows represents our economic value of equity. Economic value of equity does not represent the true fair value of asset, liability, or derivative positions because certain factors are not considered, such as credit risk, liquidity risk, and the impact of future changes to the balance sheet.

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

|                    | Immediate Change in Rates |             |            |            |
|--------------------|---------------------------|-------------|------------|------------|
|                    | -200                      | -100        | +200       | +300       |
| March 31, 2013:    |                           |             |            |            |
| Dollar change      | \$ (103,909)              | \$ (53,860) | \$ 80,226  | \$ 109,085 |
| Percent change     | -8.3%                     | -4.3%       | +6.4%      | +8.7%      |
| December 31, 2012: |                           |             |            |            |
| Dollar change      | \$ (134,704)              | \$ (86,090) | \$ 130,148 | \$ 181,210 |
| Percent change     | -11.0%                    | -7.0%       | +10.6%     | +14.7%     |

As of March 31, 2013, the estimated sensitivity of the economic value of equity to rising interest rates is less positive compared to December 31, 2012, and the estimated sensitivity to falling rates is less negative compared to December 31, 2012. The change from December 31, 2012 is due to changes in assumed loan prepayment speeds described in the previous section.

## ITEM 4. CONTROLS AND PROCEDURES

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

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

The nature of the business of the Bank and the Company’s other subsidiaries ordinarily results in a certain amount of claims, litigation, investigations, and legal and administrative cases and proceedings, that are considered incidental to the normal conduct of business. In managing such matters, management considers the merits and feasibility of all options and strategies available to the Company, including litigation prosecution, arbitration, insurance coverage, and



settlement. Generally, if the Company determines it has meritorious defenses to a matter, it vigorously defends itself.

In August of 2011, the Bank was named in a purported class action lawsuit filed in the Circuit Court of Cook County, Illinois on behalf of certain of the Bank's customers who incurred overdraft fees. The lawsuit is based on the Bank's practices relating to debit card transactions, and alleges that these practices resulted in customers being assessed excessive overdraft fees. The plaintiffs seek an unspecified amount of damages and other relief, including restitution, and no class has been certified. The Bank filed a motion to dismiss the complaint and, on January 23, 2013, the Circuit Court granted the Bank's motion and dismissed the complaint with prejudice. On February 20, 2013, the plaintiffs filed a notice of appeal with the

Illinois Appellate Court. The Company continues to believe that the Bank has meritorious defenses to the claims made by the plaintiffs.

### ITEM 1A. RISK FACTORS

The Company provided a discussion of certain risks and uncertainties faced by the Company in its Annual Report on Form 10-K for 2012. However, these factors may not be the only risks or uncertainties the Company faces.

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

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

The following table summarizes the Company's monthly common stock purchases during the first quarter of 2013. The Board approved a stock repurchase program on November 27, 2007. Up to 2.5 million shares of the Company's common stock may be repurchased, and the total remaining authorization under the program was 2,494,747 shares as of March 31, 2013. The repurchase program has no set expiration or termination date.

#### Issuer Purchases of Equity Securities (Number of shares in thousands)

|                                | Total<br>Number of<br>Shares<br>Purchased<br>(1) | Average<br>Price<br>Paid per<br>Share | Total<br>Number<br>of Shares<br>Purchased<br>as<br>Part of a<br>Publicly<br>Announced<br>Plan or<br>Program | Maximum<br>Number of<br>Shares that<br>May Yet<br>Be<br>Purchased<br>Under the<br>Plan or<br>Program |
|--------------------------------|--|---------------------------------------|---|--|
| January 1 – January 31, 2013   | 178  | \$ 13.26                              | -   | 2,494,747  |
| February 1 – February 28, 2013 | 122,711  | 12.73                                 | -   | 2,494,747  |
| March 1 – March 31, 2013       | -  | -                                     | -   | 2,494,747  |
| Total                          | 122,889  | \$ 12.73                              | -   |  |

(1) Consists of shares acquired pursuant to the Company's share-based compensation plans and not the Company's repurchase program approved by its Board on November 27, 2007. Under the terms of these plans, the Company accepts shares of common stock from option holders if they elect to surrender previously owned shares upon exercise to cover the exercise price of the stock options or, in the case of restricted shares of common stock, the withholding of shares to satisfy tax withholding obligations associated with the vesting of restricted shares.

ITEM 6. EXHIBITS

| Exhibit<br>Number | Description of Documents  |
|-------------------|---|
| 3.1               | Restated Certificate of Incorporation of First Midwest Bancorp, Inc. is herein incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.   |
| 3.2               | Restated By-laws of First Midwest Bancorp, Inc. is herein incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2012.  |
| 11                | Statement re: <u>Computation of Per Share Earnings</u> - The computation of basic and diluted earnings per common share is included in <u>Note</u> 7 of the Company's Notes to the Condensed Consolidated Financial Statements included in "ITEM 1. FINANCIAL STATEMENTS" of this document. |
| 15                | Acknowledgment of Independent Registered Public Accounting Firm.  |
| 31.1              | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2              | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1 (1)          | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2 (1)          | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 99                | Report of Independent Registered Public Accounting Firm.  |
| 101               | Interactive Data File.  |

(1)Furnished, not filed.

SIGNATURES

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

First Midwest Bancorp, Inc.

/s/ PAUL F. CLEMENS

Paul F. Clemens  
Executive Vice President, Chief Financial Officer,  
and Principal Accounting Officer\*

Date: May 10, 2013

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

