FIRST MIDWEST BANCORP INC
Form 10-Q
August 09, 2010

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

FORM 10-Q
(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2010

or

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

Commission File Number 0-10967

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ].
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ].
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X].
As of August 9, 2010, there were 74,054,562 shares of $.01 par value common stock outstanding.

FIRST MIDWEST BANCORP, INC.

FORM 10-Q

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

AVAILABLE INFORMATION

We file annual, quarterly, and current reports; proxy statements; and other information with the Securities and Exchange Commission ("SEC"), and we make this information available free of charge on or through the investor relations section of our web site at www.firstmidwest.com/aboutinvestor_overview.asp. You may read and copy materials we file with the SEC from its Public Reference Room at 450 Fifth Street, NE, Washington DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The following documents are also posted on our web site or are available in print upon the request of any stockholder to our Corporate Secretary:

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

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

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

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

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

Forward-looking statements are subject to known and unknown risks, uncertainties, and assumptions and may include projections relating to our future financial performance including our growth strategies and anticipated trends in our business. For a detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements, you should refer to our Annual Report on Form 10-K for the year ended December 31, 2009 and the sections entitled “Risk Factors” in Part II Item 1A of this report and “Management’s Discussion and Analysis of Results of Operations,” as well as our subsequent periodic and current reports filed with the SEC. These risks and uncertainties are not exhaustive however. Other sections of this report describe additional factors that could adversely impact our business and financial performance.

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

PART 1. FINANCIAL INFORMATION (Unaudited)

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and due from banks	$ 136,982	$ 101,177
Federal funds sold and other short-term investments	236,098	26,202
Trading account securities, at fair value	13,067	14,236
Securities available-for-sale, at fair value	1,090,109	1,266,760
Securities held-to-maturity, at amortized cost	87,843	84,182
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	59,864	56,428
Loans, excluding covered loans	5,208,347	5,203,246
Covered loans	240,915	214,264
Reserve for loan losses	(145,027)	(144,808)
Net loans	5,304,235	5,272,702
Other real estate owned (“OREO”), excluding covered assets	57,023	57,137
Covered other real estate owned	10,657	8,981
Premises, furniture, and equipment	132,335	120,642
Accrued interest receivable	30,103	32,600
Investment in bank owned life insurance	198,399	197,962
Goodwill and other intangible assets	281,255	281,479
Other assets	167,119	190,184
Total assets	$ 7,805,089	$ 7,710,672
Liabilities		
Demand deposits	$ 1,188,356	$ 1,133,756
Savings deposits	802,636	749,279
NOW accounts	1,049,770	913,140
Money market deposits	1,177,621	1,089,710
Time deposits	1,905,182	1,999,394
Total deposits	6,123,565	5,885,279
Borrowed funds	328,470	691,176
Subordinated debt	137,739	137,735
Accrued interest payable	4,197	5,108
Other liabilities	55,606	49,853
Total liabilities	6,649,577	6,769,151
Stockholders’ Equity		
Preferred stock	190,553	190,233
Common stock	858	670
Additional paid-in capital	435,605	252,322
Retained earnings	819,890	810,626
Accumulated other comprehensive loss, net of tax	(12,803)	(18,666)
Treasury stock	(278,591)	(293,664)

Total stockholders' equity	1,155,512	941,521
Total liabilities and stockholders' equity	$ 7,805,089	$7,710,672

	June 30, 2010		December 31, 2009	
	Preferred Shares	Common Shares	Preferred Shares	Common Shares
Par Value	None	$ 0.01	None	$ 0.01
Shares authorized	1,000	100,000	1,000	100,000
Shares issued	193	85,787	193	66,969
Shares outstanding	193	74,049	193	54,793
Treasury shares	0	11,738	0	12,176

See accompanying notes to unaudited consolidated financial statements.

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

	Quarters Ended June 30, 2010	Quarters Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Interest Income				
Loans	$ 65,439	$ 64,071	$ 129,919	$ 129,518
Securities available-for-sale	12,626	19,662	25,585	44,367
Securities held-to-maturity	1,073	1,016	2,066	1,993
Covered assets, excluding covered OREO	2,598	0	5,560	0
Federal funds sold and other short-term investments	538	390	923	741
Total interest income	82,274	85,139	164,053	176,619
Interest Expense				
Deposits	9,626	17,152	20,171	36,079
Borrowed funds	749	3,893	1,759	8,525
Subordinated debt	2,280	3,703	4,566	7,405
Total interest expense	12,655	24,748	26,496	52,009
Net interest income	69,619	60,391	137,557	124,610
Provision for loan losses	21,526	36,262	39,876	84,672
Net interest income after provision for loan losses	48,093	24,129	97,681	39,938
Noninterest Income				
Service charges on deposit accounts	9,052	9,687	17,433	18,731
Trust and investment advisory fees	3,702	3,471	7,295	6,800
Other service charges, commissions, and fees	4,628	4,021	8,800	8,027
Card-based fees	4,497	4,048	8,390	7,803
Bank owned life insurance income	349	1,159	597	1,700
Trading (losses) gains, net	(1,022)	1,360	(561)	738
Securities gains, net	1,121	6,635	4,178	14,857
Gain on Federal Deposit Insurance Corporation (“FDIC”)-assisted transaction	4,303	0	4,303	0
Other income	680	1,013	1,196	1,509
Total noninterest income	27,310	31,394	51,631	60,165
Noninterest Expense				
Salaries and wages	21,146	21,576	43,282	38,666
Retirement and other employee benefits	5,394	6,653	10,142	12,874
Other real estate expense, net	11,850	3,301	22,637	4,305
FDIC premiums	2,546	6,034	5,078	8,395
Net occupancy and equipment expense	7,808	7,389	15,976	16,226
Technology and related costs	2,785	2,142	5,268	4,382
Professional services	5,652	3,725	12,192	6,659
Advertising and promotions	2,473	1,720	3,532	2,802

Other expenses	7,801	6,693	14,821	13,318
Total noninterest expense	67,455	59,233	132,928	107,627
Income (loss) before income tax expense (benefit)	7,948	(3,710)	16,384	(7,524)
Income tax expense (benefit)	139	(6,373)	494	(15,914)
Net income	7,809	2,663	15,890	8,390
Preferred dividends	(2,573)	(2,566)	(5,145)	(5,129)
Net income applicable to non-vested restricted shares	(65)	(34)	(146)	(43)
Net income applicable to common shares	$ 5,171	$ 63	$ 10,599	$ 3,218
Per Common Share Data				
Basic earnings per common share	$ 0.07	$ 0.00	$ 0.15	$ 0.07
Diluted earnings per common share	$ 0.07	$ 0.00	$ 0.15	$ 0.07
Dividends declared per common share	$ 0.01	$ 0.01	$ 0.02	$ 0.02
Weighted average common shares outstanding	73,028	48,501	71,756	48,497
Weighted average common diluted shares outstanding	73,028	48,501	71,756	48,497

See accompanying notes to unaudited consolidated financial statements.

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

	Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance at January 1, 2009	48,630	$ 189,617	$ 613	$ 210,698	$ 837,390	$ (18,042)	$ (311,997)	$ 908,279
Cumulative effect of change in accounting for other-than-temporary impairment	0	0	0	0	11,271	(11,271)	0	0
Adjusted balance at January 1, 2009	48,630	189,617	613	210,698	848,661	(29,313)	(311,997)	908,279
Comprehensive income (loss):								
Net income	0	0	0	0	8,390	0	0	8,390
Other comprehensive loss (1):								
Unrealized losses on securities	0	0	0	0	0	(19,163)	0	(19,163)
Unrealized losses on funded status of pension plan	0	0	0	0	0	(1,006)	0	(1,006)
Total comprehensive loss								(11,779)
Common dividends declared ($0.02 per common share)	0	0	0	0	(972)	0	0	(972)
Preferred dividends declared ($25.00 per preferred share)	0	0	0	0	(4,825)	0	0	(4,825)
Accretion on preferred stock	0	304	0	0	(304)	0	0	0
	0	0	0	1,479	0	0	0	1,479

Share-based compensation expense								
Exercise of stock options and restricted stock activity	537	0	0	(18,456)	0	0	18,375	(81)
Treasury stock (purchased for) issued to benefit plans	(6)	0	0	(98)	0	0	50	(48)
Balance at June 30, 2009	49,161	$ 189,921	$ 613	$ 193,623	$ 850,950	$ (49,482)	$ (293,572)	$ 892,053
Balance at January 1, 2010	54,793	$ 190,233	$ 670	$ 252,322	$ 810,626	$ (18,666)	$ (293,664)	$ 941,521
Comprehensive income (loss):								
Net income	0	0	0	0	15,890	0	0	15,890
Other comprehensive income (1):								
Unrealized gains on securities	0	0	0	0	0	5,863	0	5,863
Total comprehensive income								21,753
Common dividends declared ($0.02 per common share)	0	0	0	0	(1,481)	0	0	(1,481)
Preferred dividends declared ($25.00 per preferred share)	0	0	0	0	(4,825)	0	0	(4,825)
Accretion on preferred stock	0	320	0	0	(320)	0	0	0
Issuance of common stock	18,818	0	188	195,857	0	0	0	196,045
Share-based compensation expense	0	0	0	2,871	0	0	0	2,871
Restricted stock activity	441	0	0	(15,386)	0	0	15,011	(375)
Treasury stock (purchased for)	(3)	0	0	(59)	0	0	62	3

issued to benefit plans								
Balance at June 30, 2010	74,049	$ 190,553	$ 858	$ 435,605	$ 819,890	$ (12,803)	$ (278,591)	$ 1,155,512

(1)Net of taxes and reclassification adjustments.

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
	2010	2009
Net cash provided by operating activities	$ 96,223	$ 76,286
Investing Activities		
Proceeds from maturities, repayments, and calls of securities available-for-sale	113,918	158,080
Proceeds from sales of securities available-for-sale	147,601	723,521
Purchases of securities available-for-sale	(64,352)	(133,004)
Proceeds from maturities, repayments, and calls of securities held-to-maturity	33,530	40,756
Purchases of securities held-to-maturity	(32,185)	(42,667)
Purchase of Federal Reserve Bank stock	(3,000)	0
Net increase in loans	(76,222)	(66,057)
Proceeds from claims on bank owned life insurance	160	2,669
Proceeds from sales of other real estate owned	30,800	4,478
Proceeds from sales of premises, furniture, and equipment	7	8
Purchases of premises, furniture, and equipment	(7,459)	(1,179)
Net cash proceeds received in an FDIC-assisted transaction	26,609	0
Net cash provided by investing activities	169,407	686,605
Financing Activities		
Net increase in deposit accounts	153,987	180,902
Net decrease in borrowed funds	(367,474)	(906,158)
Proceeds from the issuance of common stock	196,045	0
Cash dividends paid	(1,289)	(11,438)
Restricted stock activity	(1,004)	(369)
Excess tax expense related to share-based compensation	(194)	(182)
Net cash used in financing activities	(19,929)	(737,245)
Net increase in cash and cash equivalents	245,701	25,646
Cash and cash equivalents at beginning of period	127,379	114,308
Cash and cash equivalents at end of period	$ 373,080	$ 139,954
Supplemental Disclosures:		
Non-cash transfers of loans to other real estate owned	$ 58,019	$ 34,336
Non-cash transfer of other real estate owned to premises, furniture, and equipment	$ 9,455	$ 0
Dividends declared but unpaid	$ 741	$ 487

See accompanying notes to unaudited consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements of First Midwest Bancorp, Inc. (the "Company"), a Delaware corporation, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include certain information and footnote disclosures required by U.S. generally accepted accounting principles ("GAAP") for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company's 2009 Annual Report on Form 10-K ("2009 10-K").

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the quarter and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

Reserve for Credit Losses Disclosures: In July 2010, the Financial Accounting Standards Board ("FASB") issued guidance that requires companies to provide more information about the credit risks inherent in its loan and lease portfolios and how management considers those credit risks in determining the allowance for credit losses. A company would be required to disclose its accounting policies, the methods it uses to determine the components of the allowance for credit losses, and qualitative and quantitative information about the credit quality of its loan portfolio, such as aging information and credit quality indicators. Both new and existing disclosures would be required either by portfolio segment or class, based on how a company develops its allowance for credit losses and how it manages its credit exposure. The guidance is effective for all financing receivables, including loans and trade accounts receivables. However, short-term trade accounts receivables, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure requirements. For public companies, any period-end disclosure requirements are effective for periods ending on or after December 15, 2010. Any disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. As this guidance affects only disclosures, the adoption of this guidance on December 31, 2010 for period-end disclosures and January 1, 2011 for intra-period activity is not expected to impact the Company's financial position, results of operations, or liquidity.

Effect of a Loan Modification When It Is Part of a Pool That Is Accounted for as a Single Asset: In March 2010, the FASB issued guidance on the effect of a loan modification when it is part of a pool that is accounted for as a single asset. This guidance states that a modified loan within a pool of purchased, credit-impaired loans that are accounted for as a single asset should remain in the pool even if the modification would otherwise be considered a troubled debt restructuring ("TDR"). A one-time election to terminate accounting for a group of loans in a pool, which may be made on a pool-by-pool basis, is allowed upon adoption of the standard. The guidance does not require any additional recurring disclosures and will be effective for modifications of loans accounted for within a pool in interim or annual periods ending on or after July 15, 2010. Adoption of this guidance is not expected to have a material impact on the

Company's financial position, results of operations, or liquidity.

Improving Disclosures about Fair Value Measurements: In January 2010, the FASB issued accounting guidance that requires new disclosures and clarifies certain existing disclosure requirements about fair value measurements. The guidance requires disclosure of fair value measurements by class (rather than by major category) of assets and liabilities; disclosure of transfers in or out of levels 1, 2, and 3; disclosure of activity in level 3 fair value measurements on a gross, rather than net, basis; and other disclosures about inputs and valuation techniques. This guidance is effective for annual and interim reporting periods beginning after December 15, 2009, except for the disclosure of level 3 activity for purchases, sales, issuances, and settlements on a gross basis, which is effective for fiscal years and interim periods beginning after December 15, 2010. As this guidance affects only disclosures, the adoption of this guidance effective January 1, 2010 did not impact the Company's financial position, results of operations, or liquidity. Refer to Note 14, "Fair Value," for the Company's fair value disclosures.

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

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

3. SECURITIES

Securities Portfolio
(Dollar amounts in thousands)

	June 30, 2010				December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale								
U.S. agency	$ 9,919	$ 12	$ (1)	$ 9,930	$ 756	$ 0	$ 0	$ 756
Collateralized residential mortgage obligations	264,240	7,055	(1,582)	269,713	299,920	10,060	(2,059)	307,921
Other residential mortgage-backed securities	119,933	7,779	(19)	127,693	239,567	9,897	(182)	249,282
State and municipal	622,268	13,413	(3,079)	632,602	649,269	8,462	(6,051)	651,680
Collateralized debt obligations	50,547	0	(36,883)	13,664	54,359	0	(42,631)	11,728
Corporate debt	29,897	1,005	(148)	30,754	36,571	2,093	(1,113)	37,551
Equity securities:								
Hedge fund investment	1,245	609	0	1,854	1,249	177	0	1,426
Other equity securities	3,824	120	(45)	3,899	6,418	106	(108)	6,416

Total equity securities	5,069	729	(45)	5,753	7,667	283	(108)	7,842
Total	$ 1,101,873	$ 29,993	$ (41,757)	$ 1,090,109	$ 1,288,109	$ 30,795	$ (52,144)	$ 1,266,760
Securities Held-to-Maturity								
State and municipal	$ 87,843	$ 2,148	$ 0	$ 89,991	$ 84,182	$ 314	$ 0	$ 84,496
Trading Securities (1)				$ 13,067				$ 14,236

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

Remaining Contractual Maturity of Securities
(Dollar amounts in thousands)

	June 30, 2010			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$ 30,765	$ 29,656	$ 19,597	$ 20,076
One year to five years	153,474	147,943	23,287	23,857
Five years to ten years	230,162	221,868	12,238	12,537
After ten years	298,230	287,483	32,721	33,521
Collateralized residential mortgage obligations	264,240	269,713	0	0
Other residential mortgage-backed securities	119,933	127,693	0	0
Equity securities	5,069	5,753	0	0
Total	$ 1,101,873	$ 1,090,109	$ 87,843	$ 89,991

Purchases and sales of securities are recognized on a trade date basis. Realized securities gains or losses are reported in securities gains, net in the 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Proceeds from sales	$ 66,618	$ 388,834	$ 147,601	$ 723,521
Gains (losses) on sales of securities:				
Gross realized gains	$ 2,367	$ 10,768	$ 8,187	$ 21,929
Gross realized losses	(112)	0	(112)	(1)
Net realized gains on securities sales	2,255	10,768	8,075	21,928
Non-cash impairment charges:				
Other-than-temporary securities impairment	(1,581)	(14,212)	(4,344)	(40,225)
Portion of other-than-temporary impairment recognized in other comprehensive income	447	10,079	447	33,154
Net non-cash impairment charges	(1,134)	(4,133)	(3,897)	(7,071)
Net realized gains	$ 1,121	$ 6,635	$ 4,178	$ 14,857
Income tax expense on net realized gains	$ 437	$ 2,587	$ 1,629	$ 5,794
Trading (losses) gains, net (1)	$ (1,022)	$ 1,360	$ (561)	$ 738

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

The non-cash impairment charges in the table above primarily relate to other-than-temporary impairment ("OTTI") charges on trust preferred collateralized debt obligations ("CDOs"). Accounting guidance requires that only the credit portion of an OTTI charge be recognized through income. In deriving the credit component of the impairment on the CDOs, projected cash flows were discounted at the contractual rate ranging from the London Interbank Offered Rate ("LIBOR") plus 125 basis points to LIBOR plus 160 basis points. Fair values are computed by discounting future projected cash flows at higher rates, ranging from LIBOR plus 1,200 basis points to LIBOR plus 1,300 basis points. If a decline in fair value below carrying value was not attributable to credit loss and the Company did not intend to sell the security or believe it would be more likely than not required to sell the security prior to recovery, the Company records the decline in fair value in other comprehensive income.

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

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance at beginning of period	$ 33,709	$ 9,269	$ 30,946	$ 6,331
Credit losses included in earnings (1)				
Losses recognized on securities that previously had credit losses	1,048	1,970	3,568	4,770
Losses recognized on securities that did not previously have credit losses	86	2,163	329	2,301
Balance at end of period	$ 34,843	$ 13,402	$ 34,843	$ 13,402

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

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

		Less Than 12 Months		12 Months or Longer		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of June 30, 2010							
U.S. agency	1	$ 2,044	$ 1	$ 0	$ 0	$ 2,044	$ 1
Collateralized residential mortgage obligations	15	48,215	443	8,613	1,139	56,828	1,582
Other residential mortgage-backed securities	2	1,525	4	157	15	1,682	19
State and municipal	192	2,422	29	108,637	3,050	111,059	3,079
Collateralized debt obligations	6	0	0	13,664	36,883	13,664	36,883
Corporate debt securities	3	0	0	11,718	148	11,718	148
Equity securities	1	0	0	42	45	42	45
Total	220	$ 54,206	$ 477	$ 142,831	$ 41,280	$ 197,037	$ 41,757
As of December 31, 2009							
U.S. agency	1	$ 756	$ 0	$ 0	$ 0	$ 756	$ 0
Collateralized residential mortgage obligations	6	4,113	367	13,075	1,692	17,188	2,059
	2	21,227	176	598	6	21,825	182

Other residential mortgage-backed securities							
State and municipal	278	34,157	763	160,788	5,288	194,945	6,051
Collateralized debt obligations	6	3,941	16,822	7,787	25,809	11,728	42,631
Corporate debt securities	6	1,824	257	13,153	856	14,977	1,113
Equity securities	2	0	0	92	108	92	108
Total	301	$ 66,018	$ 18,385	$ 195,493	$ 33,759	$ 261,511	$ 52,144

Approximately 96% of collateralized mortgage obligations and other mortgage-backed securities are either backed by U.S. government-owned agencies or issued by U.S. government-sponsored enterprises. State and municipal securities are issuances by state and municipal authorities, all of which carry investment grade ratings, with the majority supported by third-party insurance. Management does not believe any individual unrealized loss as of June 30, 2010 represents an other-than-temporary impairment. The unrealized losses associated with these securities are not believed to be attributed to credit quality, but rather to changes in interest rates and temporary market movements. In addition, the Company does not intend to sell the securities with unrealized losses, and it is not more likely than not that the Company will be required to sell them before recovery of their amortized cost bases, which may be maturity.

The unrealized loss on CDOs as of June 30, 2010 reflects the market's unfavorable bias toward structured investment vehicles given the current interest rate and liquidity environment. In addition, the Company does not intend to sell the CDOs with unrealized losses, and it is not more than likely than not that the Company will be required to sell them before recovery of their amortized cost bases, which may be maturity.

Significant judgment is required to calculate the fair value of the CDOs, all of which are pooled. Generally fair value determinations are based on several factors regarding current general market and economic conditions relative to such securities and the underlying collateral. For these reasons and due to the illiquidity in the secondary market for the Company's trust-preferred CDOs, the Company estimates the value of these securities using discounted cash flow analyses with the assistance of a structured credit valuation firm. For additional discussion of this valuation, refer to Note 14, "Fair Value." The following table presents certain characteristics and metrics of the CDOs as of June 30, 2010.

					Lowest Credit Rating Assigned to the Security				Actual Deferrals and Defaults as a Percentage of the Original Collateral	Excess Subordination as a Percent of the Remaining Performing Collateral (1)
Number	Class	Original Par	Amortized Cost	Fair Value	Moody's	Fitch	Number of Banks/ Insurers	Percentage of Banks/ Insurers Currently Performing		
1	C-1	$ 17,500	$ 7,140	$ 2,152	Ca	C	57	66.7%	31.3%	0.0%
2	C-1	15,000	7,657	1,660	Ca	C	69	75.4%	26.8%	0.0%
3	C-1	15,000	13,622	3,368	Ca	C	75	74.7%	18.1%	8.4%
4	B1	15,000	13,922	4,739	Ca	C	64	67.2%	22.1%	11.8%
5	C	10,000	2,027	145	Ca	C	56	75.0%	30.1%	0.0%
6	C	6,500	6,179	1,600	Ca	C	77	72.7%	21.7%	11.3%
7	A-3L	6,750	0	0	C	C	86	60.5%	38.3%	0.0%
		$ 85,750	$ 50,547	$ 13,664						

(1)Excess subordination represents additional defaults in excess of current defaults that the CDO can absorb before the security experiences any credit impairment.

Credit-related impairment losses taken on the CDOs are presented in the table below.

	Quarters Ended June 30, 2010		Six Months Ended June 30,		
Number	2010	2009	2010	2009	Life-to-Date
1	$ 0	$ 949	$ 0	$ 3,749	$ 10,360
2	794	2,163	794	2,301	7,342
3	0	560	0	560	1,017
4	0	0	684	0	1,078
5	254	0	2,091	0	7,860
6	0	0	242	0	243
7	0	461	0	461	6,750
	$ 1,048	$ 4,133	$ 3,811	$ 7,071	$ 34,650

The unrealized losses in the Company's investment in corporate debt and equity securities relate to temporary movements in the financial markets. The Company has evaluated the near-term prospects of the investments in relation to the severity and duration of impairments. Based on that evaluation, 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 maturity.

Management does not believe any individual unrealized loss as of June 30, 2010 represents an other-than-temporary impairment.

The carrying value of securities available-for-sale, securities held-to-maturity, and securities purchased under agreements to resell that were pledged to secure deposits and for other purposes as permitted or required by law totaled $861.4 million at June 30, 2010 and $1.0 billion at December 31, 2009.

4. LOANS

Loan Portfolio
(Dollar amounts in thousands)

	June 30, 2010	December 31, 2009
Commercial and industrial	$ 1,494,119	$ 1,438,063
Agricultural	199,597	209,945
Commercial real estate:		
Office	415,846	394,228
Retail	310,819	331,803
Industrial	493,526	486,934
Total office, retail, and industrial	1,220,191	1,212,965
Residential construction	241,094	313,919
Commercial construction	107,572	134,680
Commercial land	94,469	96,838
Total construction	443,135	545,437
Multi-family	369,281	333,961
Investor-owned rental property	120,436	119,132
Other commercial real estate	711,287	679,851
Total commercial real estate	2,864,330	2,891,346
Total corporate loans	4,558,046	4,539,354
Direct installment	42,240	47,782
Home equity	458,066	470,523
Indirect installment	4,538	5,604
Real estate – 1-4 family	145,457	139,983
Total consumer loans	650,301	663,892
Total loans, excluding covered loans	5,208,347	5,203,246
Covered loans (1)	240,915	214,264
Total loans	$ 5,449,262	$ 5,417,510
Deferred loan fees included in total loans	$ 7,909	$ 8,104
Overdrawn demand deposits included in total loans	$ 10,578	$ 4,837

(1) Includes FDIC indemnification asset of $76.0 million at June 30, 2010 and $67.9 million at December 31, 2009.

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

It is the Company's policy to review each prospective credit in order to determine the appropriateness and, when required, 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 and the Company's lending standards and credit monitoring and remediation procedures.

5. RESERVE FOR CREDIT LOSSES AND IMPAIRED LOANS

Reserve for Credit Losses
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance at beginning of period	$ 144,824	$ 116,001	$ 144,808	$ 93,869
Loans charged-off	(24,732)	(24,940)	(44,729)	(52,183)
Recoveries of loans previously charged-off	3,859	205	5,522	1,170
Net loans charged-off	(20,873)	(24,735)	(39,207)	(51,013)
Provision for loan losses	21,526	36,262	39,876	84,672
Balance at end of period (1)	$ 145,477	$ 127,528	$ 145,477	$ 127,528

(1)Includes a $450,000 liability for unfunded commitments as of June 30, 2010, which is included in other liabilities in the Consolidated Statements of Financial Condition.

Impaired, Non-accrual, and Past Due Loans, Excluding Covered Loans (1)
(Dollar amounts in thousands)

	June 30, 2010	December 31, 2009
Impaired loans:		
Impaired loans with valuation reserve required (2)	$ 25,968	$ 45,246
Impaired loans with no valuation reserve required	162,772	216,074
Total impaired loans, excluding covered loans	$ 188,740	$ 261,320
Non-accrual loans:		
Impaired loans on non-accrual	$ 179,710	$ 230,767
Other non-accrual loans (3)	13,979	13,448
Total non-accrual loans, excluding covered loans	$ 193,689	$ 244,215
Restructured loans, still accruing interest	$ 9,030	$ 30,553
Loans past due 90 days or more and still accruing interest	$ 6,280	$ 4,079
Valuation reserve related to impaired loans	$ 7,086	$ 20,170

(1)For information on covered loans, refer to Note 6, “Covered Assets”.
(2)These impaired loans require a valuation reserve because the estimated value of the loans or related collateral less estimated selling costs is less than the recorded investment in the loans.
(3)These loans are not considered for impairment since they are part of a small balance, homogeneous portfolio.

	Six Months Ended June 30,	
	2010	2009
Average recorded investment in impaired loans	$ 219,216	$ 185,916
Interest income recognized on impaired loans (1)	165	45

(1)Recorded using the cash basis of accounting.

As of June 30, 2010, the Company had $79.3 million of additional funds committed to be advanced in connection with impaired loans.

6. COVERED ASSETS

On October 23, 2009, the Company acquired substantially all the assets of the $260 million former First DuPage Bank (“First DuPage”) in an FDIC-assisted transaction. The FDIC-assisted acquisition of the majority of the assets of Peotone Bank and

Trust Company, a community bank headquartered in Peotone, Illinois with approximately $130 million in assets ("Peotone"), was completed on April 23, 2010. Bargain-purchase gains of $13.1 million and $4.3 million were recorded for the First DuPage and Peotone transactions, respectively.

The covered assets acquired from First DuPage and Peotone are presented as follows:

Covered Assets
(Dollar amounts in thousands)

	June 30, 2010	December 31, 2009
Covered loans, excluding FDIC indemnification asset	$ 164,924	$ 146,319
FDIC indemnification asset	75,991	67,945
Total covered loans	240,915	214,264
Covered other real estate owned	10,657	8,981
Total covered assets	$ 251,572	$ 223,245
Covered loans past due 90 days or more and still accruing interest	$ 47,912	$ 30,286

All loans and OREO acquired in the First DuPage and Peotone acquisitions are covered by loss sharing agreements with the FDIC (the "Agreements"), whereby the FDIC reimburses the Company for the majority of the losses incurred. For the First DuPage transaction, the FDIC will reimburse the Company at a rate of 80% for losses up to $65.0 million and at a rate of 95% for losses greater than $65 million. The Agreement for the Peotone transaction includes a loss share with the FDIC for 80% of all losses, regardless of the total amount of losses. In connection with these loss sharing arrangements, the Company recorded an indemnification asset. To maintain eligibility for the loss share reimbursement, the Company is required to follow certain servicing procedures as specified in the Agreements.

The loans purchased in the First DuPage and Peotone acquisitions were recorded at their estimated fair values on the respective purchase dates in accordance with applicable authoritative accounting guidance and are accounted for prospectively based on expected cash flows. A reserve for credit losses is not recorded on these loans at the acquisition date. Except for revolving loans, including lines of credit and credit card loans, and leases, management determined that all of the First DuPage and Peotone acquired loans ("purchased impaired loans") had evidence of credit deterioration since origination and it was probable at the date of acquisition that the Company would not collect all contractually required principal and interest payments. Evidence of credit quality deterioration may include factors such as past due and non-accrual status. Other key considerations and indicators are 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 determining the acquisition date fair value of purchased impaired loans, and in subsequent accounting, the Company generally aggregates purchased consumer loans and certain smaller balance commercial loans into pools of loans with common risk characteristics. Larger balance commercial loans are usually valued on an individual basis. Expected future cash flows at the purchase date in excess of the fair value of loans are recorded as interest income over the life of the loans if the timing and amount of the future cash flows is reasonably estimable ("accretable yield"). The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference and represents probable losses in the portfolio.

The FDIC indemnification asset is accounted for in accordance with FASB accounting guidance for business combinations, specifically indemnification assets, which requires that indemnification assets are recognized at the same time and on the same basis as the indemnified item. Since the indemnified item is covered loans, which are measured at fair value, the FDIC indemnification is also measured at fair value by discounting the cash flows expected to be received from the FDIC. These cash flows are estimated by multiplying probable losses by the reimbursement rate set forth in the Agreements. The balance of the FDIC indemnification asset is adjusted periodically to reflect changes in expectations of discounted estimated cash flows.

Subsequent to the purchase date, increases in cash flows over those expected at the purchase date are recognized as interest income prospectively. The present value of any decreases in expected cash flows after the purchase date is recognized by recording a charge-off through the reserve for credit losses and a related increase in the FDIC indemnification asset.

Although some loans were contractually 90 days past due, none of the purchased impaired loans at June 30, 2010 and December 31, 2009 were classified as non-performing loans since the loans continued to perform substantially in accordance with the estimates of expected cash flows. Interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased loans. There has not been any significant credit deterioration since the respective acquisition dates.

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

Changes in Accretable Yield
(Dollar amounts in thousands)

	Six Months Ended June 30, 2010
Balance at beginning of period	$ 9,298
Additions	2,591
Accretion	(5,645)
Reclassifications (to) from non-accretable difference, net	18,230
Balance at end of period	$ 24,474

7. MATERIAL TRANSACTIONS AFFECTING STOCKHOLDERS' EQUITY

On January 13, 2010, the Company sold 18,818,183 shares of common stock in an underwritten public offering. The price to the public was $11.00 per share, and the proceeds to the Company, net of the underwriters' discount, were $10.45 per share, resulting in proceeds of $196.0 million, net of related expenses. The net proceeds will be used to improve the quality of the Company's capital composition and for general operating purposes.

In January 2010, the Company made a $100.0 million capital injection to the Bank. In addition, the Bank sold $168.1 million of non-performing assets to the Company in March 2010. On the date of the sale, the assets were recorded on the Company's general ledger at fair value. Given the majority of the assets were collateral dependent loans, fair value was determined based on the lower of current appraisals, sales listing prices or sales contract values, less estimated selling costs. No reserve for loan losses was recorded at the Company on the date of the purchase of these assets. As of June 30, 2010, the Company had $135.9 million in non-performing assets. Since the banking subsidiary's financial position and results of operations are consolidated with the Company, this transaction did not change the presentation of these non-performing assets in the consolidated financial statements and did not impact the consolidated Company's financial position, results of operations, or regulatory ratios. However, these two transactions improved the Bank's asset quality, capital ratios, and liquidity.

There were no additional material transactions that affected stockholders' equity during the quarter or six months ended June 30, 2010.

8. COMPREHENSIVE INCOME

Comprehensive income is the total of reported net income and all other revenues, expenses, gains, and losses that are not included in reported net income under U.S. GAAP. The Company includes the following items, net of tax, in other comprehensive income in the Consolidated Statements of Changes in Stockholders' Equity: changes in unrealized gains or losses on securities available-for-sale, changes in the fair value of derivatives designated under cash flow hedges, and changes in the funded status of the Company's pension plan.

Components of Other Comprehensive Loss
(Dollar amounts in thousands)

	Six Months Ended June 30, 2010			Six Months Ended June 30, 2009		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Securities available-for-sale:						
Unrealized holding gains (losses)	$ 13,763	$ 5,351	$ 8,412	$ (16,564)	$ (6,463)	$ (10,101)
Less: Reclassification of net gains included in net income	4,178	1,629	2,549	14,857	5,795	9,062
Net unrealized holding gains (losses)	9,585	3,722	5,863	(31,421)	(12,258)	(19,163)
Funded status of pension plan:						
Unrealized holding losses	0	0	0	(1,650)	(644)	(1,006)
Total other comprehensive income (loss)	$ 9,585	$ 3,722	$ 5,863	$ (33,071)	$ (12,902)	$ (20,169)

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

	Accumulated Unrealized Losses on Securities Available-for-Sale	Accumulated Unrealized Losses on Under-funded Pension Obligation	Total Accumulated Other Comprehensive Loss
Balance at January 1, 2009	$ (2,028)	$ (16,014)	$ (18,042)
Cumulative effect of change in accounting for other-than-temporary impairment	(11,271)	0	(11,271)
Adjusted balance at January 1, 2009	(13,299)	(16,014)	(29,313)
Other comprehensive loss	(19,163)	(1,006)	(20,169)
Balance at June 30, 2009	$ (32,462)	$ (17,020)	$ (49,482)
Balance at January 1, 2010	$ (13,015)	$ (5,651)	$ (18,666)
Other comprehensive loss	5,863	0	5,863
Balance at June 30, 2010	$ (7,152)	$ (5,651)	$ (12,803)

9. EARNINGS PER COMMON SHARE

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

	Quarters Ended June 30, 2010	Quarters Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net income	$ 7,809	$ 2,663	$ 15,890	$ 8,390
Preferred dividends	(2,412)	(2,413)	(4,825)	(4,825)
Accretion on preferred stock	(161)	(153)	(320)	(304)
Net income applicable to non-vested restricted shares	(65)	(34)	(146)	(43)
Net income applicable to common shares	$ 5,171	$ 63	$ 10,599	$ 3,218
Weighted-average common shares outstanding:				
Weighted-average common shares outstanding (basic)	73,028	48,501	71,756	48,497
Dilutive effect of common stock equivalents	0	0	0	0
Weighted-average diluted common shares outstanding	73,028	48,501	71,756	48,497
Basic earnings per share	$ 0.07	$ 0.00	$ 0.15	$ 0.07
Diluted earnings per share	$ 0.07	$ 0.00	$ 0.15	$ 0.07
Anti-dilutive shares not included in the computation of diluted earnings per share (1)	3,810	3,981	3,848	4,032

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

10. PENSION PLAN

Net Periodic Benefit Pension Expense
(Dollar amounts in thousands)

	Quarters Ended June 30, 2010	Quarters Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Components of net periodic benefit cost:				
Service cost	$ 597	$ 1,388	$ 1,194	$ 2,160
Interest cost	636	1,361	1,273	2,118
Expected return on plan assets	(1,040)	(1,859)	(2,080)	(2,893)
Recognized net actuarial loss	0	470	0	732
Amortization of prior service cost	1	1	2	2
Other	0	301	0	468
Net periodic cost	$ 194	$ 1,662	$ 389	$ 2,587

11. INCOME TAXES

Income Tax Expense
(Dollar amounts in thousands)

Quarters Ended June 30, Six Months Ended June 30,

	2010	2009	2010	2009
Income (loss) before income tax expense (benefit)	$ 7,948	$ (3,710)	$ 16,384	$ (7,524)
Income tax expense (benefit):				
Federal income tax benefit	$ (244)	$ (5,803)	$ (282)	$ (10,794)
State income tax expense (benefit)	383	(570)	776	(5,120)
Total income tax expense (benefit)	$ 139	$ (6,373)	$ 494	$ (15,914)
Effective income tax rate	1.7%	N/M	3.0%	N/M

N/M – Not meaningful.

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

The increase in income tax expense from second quarter 2009 to second quarter 2010 was primarily attributable to an increase in pre-tax income and, to a lesser extent, to a decrease in tax-exempt income from investment securities and BOLI. The increase in income tax expense for the first six months of 2010 compared to the same period in 2009 was attributable to these same factors and the recording of state tax benefits totaling $4.1 million in the first quarter of 2009.

12. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

Credit Extension Commitments and Guarantees

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

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

	June 30, 2010	December 31, 2009
Commitments to extend credit:		
Home equity lines	$ 263,832	$ 272,290
Credit card lines to businesses	13,050	12,443
1-4 family real estate construction	35,927	41,436
Commercial real estate	198,829	190,573
All other commitments	658,831	656,876
Letters of credit:		
1-4 family real estate construction	12,012	17,152
Commercial real estate	51,571	53,534
All other	82,630	71,738
Unamortized fees associated with letters of credit (1)	725	755
Recourse on assets securitized	7,718	8,132

(1) Included in other liabilities in the Consolidated Statements of Condition. The Company will amortize these amounts into income over the commitment period.

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

The maximum potential future payments guaranteed by the Company under standby letters of credit arrangements are equal to the contractual amount of the commitment. As of June 30, 2010, standby letters of credit had a remaining weighted-average term of approximately 12.4 months, with remaining actual lives ranging from less than one year to 5.0 years. 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 cash.

Pursuant to the securitization of certain 1-4 family mortgage loans in fourth quarter 2004, the Company is obligated by agreement to repurchase at recorded value any non-performing loans, defined as loans past due greater than 90 days. According to the securitization agreement, the Company's recourse obligation is capped at $2.2 million and will end on November 30, 2011. The carrying value of the Company's recourse liability totaled approximately $150,000 as of June 30, 2010 and December 31, 2009 and is included in other liabilities in the Consolidated Statements of Financial Condition.

Repurchases and Charge-Offs of Recourse Loans
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Recourse loans repurchased during the period	$ 114	$ 0		